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ADVANCED ACCOUNTS

A MANUAL OF ADVANCED BOOK-KEEPING AND ACCOUNTANCY FOR ACCOUNTANTS, BOOK-KEEPERS AND BUSINESS MEN

EDITED BY

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LONDON
SIR ISAAC PITMAN & SONS, LTD.
PARKER STREET, KINGSWAY, W.C.2
BATH, MELBOURNE, TORONTO, NEW YORK
1926

PRINTED IN GREAT BRITAIN
AT THE PITMAN PRESS, BATH

PREFACE

THE object of the present work is to provide the student of book keeping with a manual, the study of which will fit him for any of the ordinary public examinations in this subject. Complaint has been made in the past that in order to prepare for an examination, it has been necessary to consult various text-books, access to which, in many cases, has been difficult. It is believed that the present publication contains considerably more than is necessary for examination purposes, and the student who is fully conversant with all the matters dealt with has no need to fear the result of such a test. Great pains have been taken to include all matters referred to in the syllabuses of the various examining bodies, and, in addition, the requirements of particular examiners have been met to a considerable extent.

Of late years considerable advance has been made in the study of the science of accounts, and many improvements have been introduced. These have all been included in the present volume. Although the principles of double-entry book-keeping are universally accepted, there may be, of course, differences of opinion as to the best methods of applying those principles, and in this connection it may be pointed out that with some of the methods advocated in the present work, the Editor is not quite in agreement, looking at the matter as he does from the practical point of view. Most of the points, however, are matters of mere detail, where he has sunk his own view in deference to the known opinion of particular examiners, though in the matter of the proving of ledgers by Adjustment Accounts, he regards the Adjustment Accounts in the Nominal Ledger as being the ones which form part of the book-keeping, and in his view those in the Personal Ledgers are written up as a matter of convenience only.

Where several ways of achieving the same result are in vogue, these have, in many instances, been given. It has been thought, also, that the inclusion of the more theoretical methods, as well as the practical methods, will have the effect of making the explanations clearer to the student of the subject. Numerous exercises are given, the answers to which are inserted at the end of the book.

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ADVANCED ACCOUNTS

CHAPTER I

BOOK-KEEPING UP TO THE TRIAL BALANCE

Definition of Book-keeping.—Book-keeping is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. It may also be defined as the art of recording mercantile transactions in a regular and systematic manner; the art of keeping accounts in such a manner that a man may know the true state of his business and property by an inspection of his books.

Objects of Book-keeping.—The objects of book-keeping are twofold:—

(1) To have a permanent record of all mercantile transactions.

(2) To show the effect of each transaction and the combined effect of all the transactions upon the financial position of the party concerned.

History of Book-keeping.—The art in a rude state has existed from very ancient times, but Venice is considered to have been the birthplace of the modern system. In 1494 or 1495, Lucas Pacioli, a Franciscan monk, otherwise known as Lucas de Burgo and Lucas di Borgo, published in Italian the first known treatise on book-keeping. It was entitled *De Computis et Scripturis*, and advocated the use of the **Memorial** (Waste or Memorandum Book), **Journal**, and **Quaderno** (Ledger). Venice, Genoa, and other towns of Italy were the first to practise book-keeping by double entry, which is, therefore, often called the Italian method. Pacioli's work was translated into English by Hugh Oldcastle, and published in London in 1543. James Peele wrote in 1553, a work on *How to keep a Perfect Accompte of Debitour and Creditour*. In 1795 Edward Jones published his *English System of Book-keeping*, which introduced two columns into the Journal instead of one as formerly, the Trial Balance, and the Bought and Sold Day Books as we now know them. Modern additions are the Double Account System, the accounts of Joint Stock Companies, the Tabular System, and Ledger balancing by means of aggregate accounts, or, as it is called, "Self-balancing" Ledgers.

CAPITAL

Definition.—In book-keeping, the Capital of a *business* is the sum total of its assets; and the Capital of the *proprietor* of the business is the surplus or excess of assets over liabilities. An excess of liabilities over assets is called a **Deficiency.** In the case of a joint stock company, however, Capital is the amount contributed by the shareholders, without taking the assets and liabilities into consideration at all.

Trading Capital consists of the fixed and floating assets.

Fixed Capital comprises all the fixed assets.

Floating or Circulating Capital consists of the floating or circulating assets.

Positive Capital is that represented by material assets, such as land, buildings, stock, machinery, etc.

Negative Capital consists in the amount of credit that a trading company or firm can obtain.

Money borrowed by means of ordinary loans, mortgages, debentures, bonds, etc., is frequently spoken of as **Loan Capital.** Some accountants, however, consider it loose to describe such a *liability* as *capital.*

Working Capital is the amount that remains for the working or running of a business after the purchase price of the fixed assets has been paid. Thus if a trader started with a capital of £20,000 and expended £12,000 of it in the purchase of buildings and plant then the balance of £8,000 would constitute the working capital. This term is also applied to the excess of floating assets over floating liabilities.

ASSETS

Definition.—Assets are the property and possessions of a business, *i.e.*, its stock, land, buildings, book debts, etc. They are classified according to their nature and are of various kinds :—

Fixed Assets are those that are acquired and held permanently for the purpose of earning income, as, for example, plant and machinery, lease, goodwill, etc.

Floating Assets are those that are acquired and held temporarily, being intended for resale or subsequent conversion into money, as, for example, stock-in-trade, bills receivable, book debts, etc.

Note.—The same asset may be either fixed or floating according to the nature of the business. Thus, investments would be a floating asset to a stock-broker, but a fixed asset to an ordinary trader. Machinery would be a fixed asset to an ordinary manufacturer, but a floating asset to a machinery trading company. Horses to a horse-dealer would be a floating asset, but to a cartage contractor a fixed asset. It depends on whether the asset is held merely for the purpose of sale, or is intended to be kept in the business.

Liquid Assets are those that are readily available to discharge liabilities; such as cash; or that can easily be turned into money; such as gilt-edged securities, bills receivable, etc.

Wasting Assets are fixed assets that depreciate through wear and tear; as, for example, plant and machinery; those whose value expires with lapse of time; such as patents and leases; also those that become exhausted or consumed through being worked; such as mines, quarries, etc. The expression is more generally applied to the last named.

Fictitious Assets are those that represent intangible expenditure; such as preliminary expenses, a debit balance of Profit and Loss; or value which cannot be realised, as insurance premiums paid in advance, etc.

ACCOUNTS

Definition.—An account is a Ledger record, in a summarised form, of all the transactions that have taken place with the particular person or thing specified; as Plant Account, Wages Account, J. T. Brown's Account. There are two main divisions of accounts:

(1) **Personal Accounts** comprise both debtors and creditors. Debtors are people who owe money, *e.g.*, persons to whom the firm has sold goods. Creditors are people to whom money is owing, *e.g.*, persons from whom the firm has bought goods.

(2) **Impersonal Accounts** include both real and nominal accounts.

(*a*) **Real** or **Property Accounts** are those that refer to *assets*; such as plant and machinery, stock-in-trade, cash, etc.

(*b*) **Nominal Accounts** are those that relate to *gains and losses*; such as discounts, wages, rent, rates, etc.

Note 1.—Some accounts though *impersonal* in name are really *personal* in signification. For instance, the Capital Account and the Drawings Account are personal accounts either of the proprietor of the business or of the partners thereof, who are creditors of the concern for the amount of their capitals, and debtors to the extent of their drawings. An account for outstanding items, though *impersonal* in name, is really a *personal* account, being merely the account of unnamed creditors or debtors.

Note 2.—Some accounts are both *real* and *nominal*; as, for example, the Sales Account, which is a real account so far as the goods themselves are concerned, but nominal in relation to the gain or loss arising from the sales.

SYSTEMS OF ACCOUNTING

The modern system of book-keeping or accounting in use is known as double entry.

Double Entry is a system of book-keeping by means of both *personal* and *impersonal* accounts.

Single Entry (in which only *personal* accounts are kept) can

scarcely be dignified with the name of a "system," and can only be described by showing its deficiencies as compared with Double Entry. It is dealt with later.

THEORY OF DOUBLE ENTRY

Twofold Aspect of Transactions.—Every transaction that results in a transfer of money or money's worth involves a twofold aspect, (*a*) the yielding of a benefit, and (*b*) the receiving of that benefit. It is impossible to think of one without the other; a giver necessarily implies a receiver, and a receiver necessarily implies a giver. The giving and receiving, however, take place between *accounts* and in the *same* set of books. Thus, if furniture is bought from Smith, Furniture Account *receives* and Smith's Account *gives*. Hence, to have a complete record of each transaction, there must be a *double* entry. The one transaction has therefore to be booked up *twice*, an entry being made in the receiving account, and a similar entry in the giving account.

Debit and Credit.—In order to distinguish the two entries necessary for the complete record of a transaction, the Receiving Account is termed **Debtor**, and the Giving Account is called **Creditor**. The two sides of the ledger account in which each transaction is recorded are likewise arbitrarily distinguished, the left-hand side of the account being termed **debit**, and the right-hand side being designated **credit**. Thus we see that each transaction involves two entries in the same set of books, a *debit* entry and a *credit* entry; and that every debit must, therefore, have a corresponding credit and *vice versâ*. Upon this foundation has been reared the whole superstructure of modern double-entry book-keeping.

Advantages of Double Entry.—These may be enumerated as follows:—

(1) *A Complete Record of each Transaction.* In double entry not only are personal accounts kept, but impersonal accounts are also opened in order to record all those transactions that involve assets, gains, or losses; as, for instance, the purchase of plant, the payment of wages, the receipt of discount.

(2) *Full Information concerning the Business.* The information supplied by the books is not limited to the debtors and creditors as in Single Entry. The impersonal accounts furnish additional information concerning the property and assets of the business, and the various gains and losses.

(3) *A Check upon the Arithmetical Accuracy of the Clerical Work.* Since every debit has a corresponding credit, the total debits must at any time equal the total credits. Whether this be so or not is easily ascertained by means of a Trial Balance. Again, the difference between the assets and liabilities on the Balance Sheet must be equal to the balance of the Capital Account in the Ledger.

(4) *The Preparation of a Profit and Loss Account and Balance Sheet.* This can be done from the double entry books themselves, as they are self-contained.

NATURE OF LEDGER BALANCES

Debit Balances.—The debit balances in a Ledger may be classified as either assets or losses. If they denote debts, *e.g.*, accounts receivable, or if they represent tangible expenditure, *e.g.*, property, such as plant, fixtures, etc., they are assets. If they represent intangible expenditure, *e.g.*, mere expenses such as wages, rent, etc., they are losses.

Credit Balances.—The credit balances that exist in a Ledger must be either liabilities or gains. If they denote debts, *e.g.*, accounts payable, they are liabilities; if they represent income, such as discounts received, they are gains.

Note.—The above distinction is of the utmost importance in the preparation of a Profit and Loss Account and Balance Sheet, as gains and losses are entered in the former, and assets and liabilities in the latter.

BOOKS USED IN BOOK-KEEPING

The books utilised for the purpose of book-keeping fall naturally into two divisions :—

(1) **Financial Books or Books of Account.**—These comprise all the books that are an integral part of the system of book-keeping. They are subdivided into two classes :—

(*a*) **Principal Books,** namely, Ledger and Cash Book.

(*b*) **Subsidiary Books,** or books of prime or original entry; such as Purchases Book, Sales Book, Journal, etc.

(2) **Statistical or Memorandum Books.**—These are books in which are entered the numerous details connected with the business operations; details that cannot conveniently be recorded in the financial books. Examples of these are the Policy Registers of an insurance company, the Cost Books and Stock Books, etc., of a manufacturing firm.

Note.—The subsidiary books were originally designed as aids or helps (Latin, *subsidium* = help, aid) to the Journal proper, and the totals of the subsidiary books were regularly entered in the Journal. They are now aids or helps to the construction of the Ledger, and are no longer auxiliaries of the Journal in its present modified use.

JOURNAL

Definition.—The Journal, or "daily record," as originally used, was a book of prime entry in which transactions were copied, in order of date, from a Memorandum or Waste Book. The entries,

as they were copied, were classified into debits and credits so as to facilitate their being correctly posted afterwards in the Ledger.

Journal Superseded by Subsidiary Books.—The method of entering every transaction into the Journal was soon found to be cumbersome and tedious, and also to lack facilities for ready reference. First the cash transactions were omitted and dealt with in another book; then the credit purchases and sales were entered in a separate book; finally, the use of the Journal in its original form became obsolete, and the book itself was superseded by the subsidiary books or books of prime entry. The use of separate books for cash, purchases, and sales, besides being a great time saver, also provides greater facilities for reference. Strictly speaking, however, these books are but modified forms of the Journal proper, though the Cash Book may be said to be partly a Journal and partly a Ledger.

Use of Journal Compulsory.—In Spain, France, Italy, parts of Austria and Germany, and wherever the *Code Napoléon* obtains, the use of the Journal is compulsory. In Russia it is the only book accepted as evidence in the courts of law. On the Continent, therefore, all transactions go through the Journal in one form or another, in detail, in summary, or in periodical totals.

Present-Day Use of the Journal.—In modern counting-houses, the Journal, if in use at all, is kept for the purpose of recording opening and closing entries, transfers, the writing off of bad debts and depreciation, the debiting and crediting of interest, the correction of errors—in short for such entries as cannot conveniently be made in any of the other books of original entry, or which are not sufficiently numerous to necessitate a special book being devised for them. As, however, all these entries can be made direct from one Ledger account to another, it is quite possible for a set of books to be kept without using a Journal at all. Such a practice cannot, however, be recommended. Transfers should certainly be recorded in the Journal before being made in the Ledger, so as to obviate the danger of one-sided entries, *i.e.*, the entering of a Debit or Credit without the contra entry; for instance, crediting a personal account *By Bad Debts*, and omitting to make the corresponding debit in the Bad Debts Account itself. Such entries, of course, prevent the periodical agreement of the books. Further, the cause of the discrepancy between the debit and credit totals of the Trial Balance is, in such cases, very difficult to trace, as re-calling over, re-casting, re-balancing, all fail to find it. It often involves the examination of large numbers of ledger accounts, in order to find any entries not ticked. It is a wise precaution, therefore, to insist upon all transfers being made through the medium of the Journal.

Narration.—The modern use of the Journal requires an explanation at the foot of each entry, in technical language a "narration." Whether a Journal entry involving more than one debit and more

than one credit should be preceded by the phrase *Sundries to Sundries* is a matter on which there is a difference of opinion; but a narration is always necessary unless the item speaks for itself—thus, "Bad Debts *Dr.* to A" is obviously the writing off of a debt irrecoverable from A. On the other hand, if we have "A *Dr.* to B," the reason for the entry is not clear without a narration such as "Error in posting 20th Jan."

PURCHASES BOOK

Nature and Use.—This is one of the subsidiary books or books of original entry in which are entered all goods bought *on credit.* In addition to being called the "Bought Book" and "Bought Day Book," which terms are self-explanatory, it is also termed the "Invoice Book," owing no doubt to the fact that the bought invoices are copied into it, sometimes in detail, sometimes in total. *Cash* purchases are best dealt with in the Cash Book alone, though the practice of entering them in the Bought Book as well, in order to post the purchases in one total to the Purchases Account, still obtains. The rulings vary from the ordinary two columns for details and total respectively to the several columns in use in those businesses where, owing to the complexity of the transactions, analysis becomes imperative if the system of book-keeping is to furnish really satisfactory information.

Guard Books.—The tabular Purchases Book (plus an alphabetical file) has practically replaced the old-fashioned guard book in which the original invoices were pasted, money columns being provided for the total of each invoice. The cumbersomeness of the book, the labour of folding the invoices in the first place, and the inconvenience of unfolding and refolding them whenever reference is made, has no doubt led to its gradual supersession.

Trade Discounts.—These are abatements or allowances from the catalogue price of goods. They should be deducted from the invoices which will be entered *net* in the Purchases Book and so posted into the Ledger.

Common Errors in the Purchases Book.—In writing up the ordinary two-column Purchases Book, care must be taken to see that no bought articles are entered in it except those that are for *re-sale.* If purchases of machinery, fixtures, stationery, coal, etc., are so entered, the Purchases Book must be analysed and summarised at the end of the month in order that all such items may be posted to appropriate asset and expense accounts. These commodities are for own use or consumption, and if posted to the Purchases Account would cause the gross profit to come out at less than the actual amount.

Trade Purchases Book.—There is a marked tendency in many businesses to keep the Purchases Book for trade transactions only,

i.e., for purchases of goods for re-sale; and, in such cases, the Bought Ledger is often called the "Trade Ledger." Invoices for assets and expenses are filed as and when received, and, when they are paid, the personal side is ignored by posting the payment in the Cash Book direct to the asset or expense account involved. Thus, suppose on the 15th of the month we bought some stationery from Messrs. Brown & Co. When the invoice was received it would simply be filed, and at the end of the month when the account was paid, the entry in the Cash Book would be *By Stationery*, (*Brown & Co.*); which would be posted direct to the Stationery Account. This saves a considerable amount of entering up in the Bought Book, and is perhaps quite satisfactory in those businesses where the items are few and it is the custom to pay all such accounts at the end of the month.

SALES BOOK

Nature and Use.—This is another of the books of original entry. In it are recorded all goods sold *on credit*, *i.e.*, not paid for at the time of sale. The book is known by various names: "Day Book," "Sold Day Book," and "Sales Day Book." The ruling may be the ordinary two columns or it may be the tabular form; which is a matter dictated by the requirements of the business. *Cash* Sales should not be included in this book, but should be entered in the Cash Book only. If, however, a regular credit customer happens to pay cash down for some particular goods in order to reap the benefit of a cash discount, it is best for such sale to be passed through the Sales Book in the usual way, so that the customer's account may be a full record instead of a partial one. But where a customer has *not* a Ledger account with the firm, such a course is, as a general rule, wholly unnecessary. It duplicates the work without offering any compensating advantage.

Odd and Even Day Books.—In some businesses the custom exists of keeping *odd* and *even* Day Books; that is to say, all transactions on even dates, such as 2nd, 4th, 6th, etc., will be entered in one book; and all transactions on odd dates, such as 1st, 3rd, 5th, etc., will be entered in another book. This is done in order to prevent loss of time through one clerk having to wait for a book that another clerk is using. It also ensures the clerical work being up to date, for the ledger clerk can be using one Day Book to post up the previous day's transactions, while the invoice clerk is using the other Day Book to write the current day's transactions.

Trade Discounts.—As with the Purchases Book so also with the Sales Book, these allowances off the selling price should be deducted on the invoice. and only the *net* sale carried out and posted into the Ledger.

Sales Journal.—This is a form of Sales Book adopted in those

businesses where press-copy or carbon-copy Invoice Books are in use. No details are entered in it, but merely the date, name, and total of each transaction, columns being provided for the purpose of analysis. Reference is made to the detail by quoting the number of the invoice or the folio or page of the press-copy book. The following is an example :—

SALES JOURNAL

Date.	No. of Invoice.[1]	Name.	Led. Fol.	Total.	Mantles.	Dress Materials.	Felts.

[1] Or Press Copy Book folio.

PURCHASES RETURNS BOOK

Nature and Use.—This book, called also "Returns Outwards Book," is a book of original entry in which are recorded all returns of goods *bought*. The reason for return may be that the goods are of the wrong kind, or not up to sample, or because they are damaged. The ruling of the book will naturally be identical with the ruling of the Purchases Book. Allowances claimed for breakages, short weight, overcharge, etc., are usually dealt with in the same book.

Debit Note Book.—A specially printed Memorandum Book is generally utilised. Debit Notes with full particulars are sent to the parties concerned, the counterfoils providing the material for writing up the Returns Book.

Posting to Ledger.—Each person to whom goods have been returned, or from whom an allowance has been claimed, is debited in the Bought Ledger, and, at the end of the month, the total is credited to the "Purchases Returns and Allowances Account" in the General or Impersonal Ledger. Some accountants, however, prefer to open a separate "Allowances Account" for such items as are not actual returns, *i.e.*, abatement in price, claims for broken or damaged articles, etc. The Allowances Account is finally closed to Trading Account through the Purchases Account.

SALES RETURNS BOOK

Nature and Use.—This book, termed also "Returns Inwards Book," is a subsidiary book used for the purpose of recording

all returns of goods *sold*. The circumstance necessitating the return of the goods may be that they are of the wrong description, or of inferior quality, or damaged. The ruling of the book will, of course, correspond with that of the Sales Book. Allowances claimed in respect of short delivery, breakage, overcharge, etc., are usually included in the same book.

Credit Note Book.—A specially printed counterfoil Memorandum Book is in common use. Credit Notes, printed in red ink, with full details, are sent to the customers concerned, the counterfoils supplying the necessary particulars for writing up the Returns Book. Since, however, these items arise from claims by customers, another method is to *file the claims* and enter up the Returns Book from the file. This ensures that all credits are *bonâ fide* claims and obviates the possibility of an amount being collected and embezzled and then entered as "Returns."

Posting to Ledger.—Each person who has returned goods is credited in the Sales Ledger, and, at the end of the month, the total is debited to the "Sales Returns and Allowances Account" in the General or Impersonal Ledger. For such items, however, as previously mentioned under Purchases Returns Book, which do not partake of the nature of returns, a separate "Allowances Account" is sometimes kept in addition to a Returns Account, and closed at balancing time to the Trading Account through the Sales Account.

CASH BOOK

Nature and Use.—This is a book of original entry, the object of which is to record all receipts and payments of money. It is wrongly classed as a subsidiary book, for it is really part of the principal book, *i.e.*, the Ledger, being nothing more or less than the Cash and Bank Accounts taken out of the Ledger and bound separately for the sake of greater convenience. This is at once apparent when we remember that the Cash and Bank balances, like all other Ledger balances, must be entered in the Trial Balance and Balance Sheet before either of the latter can be agreed.

Headings of Cash Book.—The ornamental headings *Cash* and *Contra* are still sometimes found, though they serve no useful purpose.

Rulings of Cash Books.—There are different rulings of Cash Books in vogue. With the ordinary Cash Books the number of columns varies from one (for Cash or Bank) to three (for Discount, Cash, and Bank respectively). With tabular Cash Books the number of columns may be numerous, according to the nature of business or the requirements of the counting-house.

Contra Entries.—In the ordinary three-column Cash Book there will be, in addition to the usual receipts and payments of money, *cross* or *contra* entries, *i.e.*, transfers of money from Cash to Bank,

and contra transfers from Bank to Cash. A surplus of Cash is paid into Bank, and a shortage of Cash is made good by withdrawals from Bank. In all such cases an adjusting entry is, therefore, required in the Cash Book.

Cash Discounts.—These are deductions made, at the time of settlement, from accounts receivable and payable. They are entered in a special column of the Cash Book, and their totals are respectively posted to a "Discounts Allowed" and a "Discounts Received" account in the Ledger, so that the exact gain or loss by discount may easily be ascertained.

Treatment of Cheques.—In some businesses all cheques received are entered in the Cash column; in others they are entered direct into the Bank column. Again, in some businesses, cheques received from customers are endorsed on to creditors. Such cheques must, both when received and also when paid away, be entered in the Cash columns. The practice is, however, unsatisfactory—all cheques should preferably be cleared through a bank the same day as received.

Cash Sales.—Where the Cash Sales, or "till takings," as they are often called, are not very large or numerous, the total is generally entered at the end of the month in the General Cash Book, and posted to the Sales Account in the General Ledger. But where the transactions are both large and numerous, a separate Cash Sales column is provided for the daily or weekly amount, and the monthly total of this column is posted to the Sales Account.

Bills Receivable and Payable.—Where Bills Receivable and Bills Payable are very numerous it is not unusual to find separate columns provided in the Cash Book to accommodate such receipts and payments. Only the monthly totals of such columns are posted to the General Ledger accounts for bills, thus saving the labour of posting a considerable amount of detail. The detail posting, however, possesses the advantage of showing at a glance which bills are outstanding.

Posting to Ledger.—All items in the Cash Book other than balances or cross entries are posted into the Ledger. The receipts on the debit side of the Cash Book are posted to the credit of the Ledger accounts affected, "*By Cash*," and "*By Discount*," (if any); and the payments on the credit side of the Cash Book are posted to the debit of the Ledger accounts concerned, "*To Cash*," and "*To Discount*" (if any); or, the Cash and Discount are frequently added together and posted as "Cash, etc." It depends largely upon whether the advantage of having the two items in the Ledger compensates for the time occupied in making two entries instead of one in each case. The discount total on the Dr. side of the Cash Book is posted to the Dr. of Discount Account in the Ledger, as the items have been posted individually to credit

of the personal accounts. The reverse applies to those on the Cr. side, *i.e.*, the total discount on the Credit side is posted to the credit of the Discount Account, the items having been posted individually to the debit of the personal accounts. Very often the discount totals on each side are posted to separate accounts, as previously mentioned when dealing with Cash Discounts.

Balancing the Cash Book.—To avoid the trouble as well as the possibility of error, of continually carrying forward large amounts on each side, the Cash Book is balanced at least once a month, and the balances are carried down to the new period.

Bank Cash Book.—A modern development of the three-column Cash Book (Discount, Details, Bank), known as the "Bank Cash Book" is much in use at the present day. All money received is paid into the Bank intact, and all payments except Petty Cash payments are made by cheque. The debit side of the Cash Book is written up from printed and numbered carbon copy receipts, and the credit side from the counterfoils of the cheques paid away. No cross entries are necessary; when money is paid into the Bank, the amount is simply extended into the Bank column; and when money is drawn for Petty Cash, the amount is written out of this Cash Book and posted to the debit side of a separate Petty Cash Book.

Reconciliation Account.—This is a statement drawn up in order to agree the Bank balance *as shown by the Bank Pass Book*, with the Bank balance *as shown by the Bank column of the Cash Book.*

RECONCILIATION STATEMENT

Bank Balance as per Pass Book . .				550	10	6
Add Cheques, etc., paid in, not cleared	67	13	2	67	13	2
				618	3	8
Deduct Cheques paid away but not yet presented—						
Smith & Son	16	2	9			
Jones & Co.	23	4	7			
Brown & Roberts	10	15	2	50	2	6
Bank Balance as per Cash Book . .			£	568	1	2

The statement is generally copied into the Cash Book at the end of the month as a permanent record. The two balances seldom agree. Cheques paid away to creditors are entered in the Cash Book as at the date they are drawn, but they will not be shown in the Pass Book until the creditors have cleared them. Again, cheques paid into the Bank do not always appear in the Pass Book on the same date; the "clearing," especially in the case of country cheques, is not always effected on the day they are lodged with the

bank. On checking the Pass Book with the Cash Book at the end of the month there will be several items not ticked in the Cash Book, simply because they are not included in the Pass Book. These items furnish the material for the adjusting entries as shown in the *pro formâ* example on the previous page.

PETTY CASH BOOK

Nature and Use.—This is a book of original entry devised for the purpose of relieving the General Cash Book of much cumbersome detail. It is used for recording the numerous petty disbursements incidental to modern businesses. There are various methods of keeping the Petty Cash, the money for which is advanced in round sums as and when required. In small businesses a Memorandum Cash Book is kept, and at the end of the month the total expenditure is credited in the General Cash Book and charged to the Trade Expenses Account; in other cases the expenditure is analysed under appropriate headings, and the analysis is copied into the General Cash Book for posting to the corresponding Ledger accounts. A Petty Cash Account is often raised in the Ledger, and the monthly summary journalised and posted to the debit of the accounts concerned and to the credit of the Petty Cash Account.

Imprest System.—The most up-to-date method of keeping the Petty Cash is what is known as the "Imprest System," by means of which a certain sum of money is definitely "retained" or "held" for Petty Cash expenditure. At the end of the month a cheque is drawn simply for the exact sum spent, so that the imprest amount is always in hand at the commencement of each month. The expenditure is recorded in a tabular Petty Cash Book, which is utilised as a posting medium. By this method the expenditure is analysed daily as it occurs, thus saving the trouble of monthly analysis; while the posting of the columnar totals direct from the Petty Cash Book to the expense accounts in the General Ledger instead of through the medium of the Journal, is a great saving of labour, and also minimises the risk of error inasmuch as copying into the Journal is dispensed with.

BILL BOOKS

Nature and Use.—These are two subsidiary books, called BILLS RECEIVABLE BOOK and BILLS PAYABLE BOOK respectively, used for the purpose of recording all bills drawn, received, and accepted by the firm, and the necessary particulars connected with them, such as drawer, drawee, payee, tenor, where payable, due date, etc.

LEDGER

Nature and Use.—We come now to what is called the *principal* book, namely the Ledger. As has been previously stated, a part

of the Ledger, called the Cash Book, is bound as a separate book for the sake of convenience. The word *ledger* is derived from the Old Dutch *legger*, from *leggen*=to lie. The *whole* of a trader's transactions are entered from the subsidiary books into the Ledger, but in a summarised and classified form, *e.g.*, all Smith's transactions in Smith's Account, all Sales transactions in Sales Account, but in total instead of in detail, and so on. The transactions, so to speak, *lie* there ready for reference.

Rulings of Ledgers.—Many different rulings are met with in business. The most usual have columns for date, particulars of transactions, folio, and amount. Double money columns are in use where the business has foreign customers, one column being kept for currency and the other for sterling. Double money columns are also provided in order that accounts may be ruled off as and when paid.

Index.—In order to facilitate reference to the accounts contained in it, each Ledger is furnished with an alphabetical index, which is either at the commencement of the Ledger or bound as a separate book. Card Indexes are in vogue in many businesses. The index cards are kept in a tray, a separate card being used for each customer's name. They have many advantages; new names may be added without throwing the others out of order; they also effect a great saving of labour, as the necessity for re-writing an index does not arise.

Subdivisions of the Ledger.—The usual subdivisions of the Ledger are as follows :—

Purchases or Bought Ledger, which contains the *creditors'* accounts.

Sales or Sold Ledger, which contains the *debtors'* accounts.

Impersonal or General Ledger, which contains the *real* and *nominal* accounts. The term Nominal Ledger is sometimes applied to this Ledger; but this is inaccurate, since such a designation should, strictly speaking, embrace only those accounts that relate to gains and losses.

Private Ledger, which contains the *Capital Account* and *Drawings Account* of the proprietor or of each of the partners. It also contains the Trading and Profit and Loss Account and Balance Sheet for each half-year or year.

Other Divisions of Ledgers.—In addition to the above we find other subdivisions such as Bills Receivable and Bills Payable Ledgers, Agents' Ledgers, Branch Ledgers, Consignment Ledgers, Investment Ledgers, etc., each firm adapting the division to meet its own particular requirements.

Sectional Division of Ledgers.—In some businesses the Bought Ledgers and Sales Ledgers are divided into sections (*a*) *alphabetically* as A-G, H-L, M-R, S-Z; (*b*) *departmentally* as A Dept., B Dept.,

or Hosiery Dept., Drapery Dept.; or (*c*) *geographically* as Town, Country, Foreign.

Balancing of Ledgers.—No hard and fast rule can be laid down for balancing and ruling off Ledger accounts. In some businesses it is done monthly, in others quarterly. Again, in some businesses accounts are also ruled off as and when paid; in others only at the close of each half-yearly or yearly trading period, it being desired to see the turnover of each customer. Probably the balance of convenience is to rule off an account whenever a payment is made, so that the *composition* of the balance remaining may be seen at a glance.

LOOSE LEAF AND CARD LEDGERS

Nature and Use.—Loose Leaf Ledgers consist of sheets ruled like the pages of an ordinary bound Ledger, such sheets being inserted or abstracted from an expanding binder as and when required. A certain number of sheets are printed and numbered; and a register is kept which shows when and to whom they were issued. The sheets are arranged alphabetically, A1, A2, A3, etc., B1, B2, B3, etc., C1, C2, C3, etc., and the number given to a customer when an account is opened for him always appears on all sheets relating to this particular customer. Thus, suppose James Smith is the twenty-third customer whose name begins with S; then S23 will always appear on the Ledger sheets of James Smith's Account. The Ledger sheets are kept in two distinct binders or holders, one for *live* or *current* accounts, and the other for *dead* or *closed* accounts. If the transaction is a chance one, the customer's account, when paid, is transferred to the closed section; if it is followed later on by further transactions, the account is re-transferred to the current section. Card Ledgers are on exactly the same principle, the cards, however, being kept in special trays or drawers. The loose-leaf binders and the card trays or drawers are generally fitted with patent locking devices, the keys of which can be retained by someone in authority. Though very suitable for the personal accounts of debtors and creditors, they can also be used to advantage for statistical records, such as cost accounts, register of members of a joint stock company, etc.

Advantages.—The advantages claimed for Loose Leaf and Card Ledgers are as follows:—

(1) The current Ledger is not cumbered with dead or closed accounts, as the latter are taken out and filed separately; neither does it contain a number of blank pages.

(2) There is no need for an index, the cards and leaves being arranged alphabetically.

(3) The labour of making new indexes and of opening entirely new Ledgers is dispensed with.

(4) The Ledgers are continuous or "perpetual." Extra leaves or cards are added for each new account.

(5) The work of posting, rendering statements, or taking out balances can be performed much more quickly, as it can be allotted to a number of clerks simultaneously.

(6) An account is continuous, not scattered over many pages of the Ledger and frequently necessitating much backward and forward reference when the account is one of any extent.

Disadvantages.—The principal disadvantages of Loose Leaf and Card Ledgers are :—

(1) The cards or leaves may be accidentally or wilfully lost or destroyed.

(2) Fresh cards or leaves may be fraudulently substituted for others, in order to commit or conceal fraud.

(3) The uncertainty as to whether such Ledgers would be recognised if put in as evidence in a court of law. To produce a few loose leaves or cards instead of a bound book or books would obviously be to the advantage of the court and the litigant, and also to the counting-house, as it would not bring the clerical work to a standstill owing to the books being away.

Loose Leaf *v.* Card Ledgers.—The advantages claimed for the Loose Leaf over the Card System are :—

(1) The form of the Ledger is maintained with any consequent benefits.

(2) The Ledger sheets are not so likely to get displaced or lost, as they are larger than the cards.

(3) It is just as suitable for large as for small accounts. A better idea of an account can be obtained by glancing over a few sheets than by looking at numerous cards.

(4) The utility of Card Ledgers is restricted to the ordinary debtor and creditor rulings. Elaborate rulings are not possible on small-sized cards.

On behalf of the Card System it is contended that cards are more easily handled, and that there is little risk of cards being displaced or lost.

SLIP SYSTEM OF BOOK-KEEPING

Nature and Use.—Mention must here be made of what is known as the "slip" system of book-keeping. It is really a re-introduction of the earliest methods of "book-keeping without books," or "accounting," as it should be more properly called in such cases; that is, a recording on loose sheets of paper, of transactions usually entered in subsidiary books. In its widest sense the term includes also loose-leaf and card Ledgers. Under the ordinary system of book-keeping, transactions are recorded in books of original entry, and these transactions have to be copied into the

Ledger. The copying process has to be continued into other books according to the complexity of the transactions and the requirements of the business itself. The object of the slip system is to do away with this constant re-copying, by making the original record serve all the purposes of book-keeping. Thus, a carbon copy of an invoice may serve the purpose of both Day Book and Ledger Account. The counterfoils of receipts and cheques may be posted direct to the Ledger Accounts affected, thus avoiding the copying into the Cash Book and the subsequent copying from there into the Ledger. Naturally there are many variations of detail in practice, a constant compromise so to speak between principle and convenience. The slip system has been adopted by banks for many years, the numerous customers' accounts being regularly posted up from original " dockets," such as paying-in slips, cheques, etc.

Advantages.—The following advantages are claimed for the slip system of book-keeping :—

(1) Saving of time and labour, as it reduces the number of subsidiary books.

(2) Ledgers can be posted more promptly, as the slips can, if necessary, be distributed among several ledger clerks simultaneously.

(3) The minimising of the risk of error, as much copying into intermediate books is dispensed with.

(4) Ready reference from the Ledger direct to the original slips.

Slip Day Book.—A large book is generally used with at least three or four printed and numbered invoice forms on a page. Carbon copies are obtained each time an invoice is made out. Postings are made from the carbon facsimiles (which are also detachable), direct to the personal accounts in the Ledger. References are made in the Ledger to the number of the posting slips, which are then carefully filed alphabetically and in order of date. If subsequent reference is likely to be frequent, the detail itself is often copied into the Ledger so as to avoid the constant turning up of slips. The amount of each invoice is extended into money columns provided on the counterfoils, or entered on a summary sheet against its corresponding number, or into a specially ruled dissection book if dissection is necessary ; and the totals of the counterfoils, summary sheet, or dissection book are posted periodically to the Sales Account. In some cases, however, the amount of each slip is posted direct to the Sales Account. A simple form of such day book is in use in most retail shops. Carbon copy " bills " or invoices are made out for each sale, one copy being given to the customer and the other handed in at the cash desk. Each form is numbered, and the amount of each sale is registered on a summary

sheet at the back of the book, so that the total sales may be ascertained daily or periodically. Where dissection is imperative, the carbon duplicates are usually on different coloured papers, according to the departments making the sales; and dissection is easily carried out, by simply sorting the slips into their different colours and then totalling them. Under this system one of the commonest errors is guarded against, namely, the sending out of an invoice without any record of the sale being made in the Day Book. It is not necessary that the invoices be written by hand; they can be typewritten, if desired. The principal objections to the ordinary bound Day Book are the length of time taken to compile it, lack of facilities for dissection, and the uncertainty as to whether the entries made therein correspond exactly with the invoices sent out to the customers.

Slip Cash Book.—For the General Cash Book it will no doubt be found desirable to retain the ordinary bound form of book. But where numerous subsidiary Cash Books are in use, a great saving of labour may be effected by the adoption of the slip system. An ordinary-sized Cash Received Book is employed, having three or four printed and numbered carbon copy receipt forms on a page, which are provided with numbered counterfoils ruled with money columns. The carbon duplicates are detached and handed to the ledger clerks concerned for posting to the various personal accounts, after which they are filed alphabetically and in order of date. The totals of the counterfoils serve as a check on the debit side of the General Cash Book, and also for the purpose of compiling adjustment accounts for "Self-balancing Ledgers." The practice of using carbon receipts obviates the risk of money being received and acknowledged without any record being made of it. It is not, however, an infallible safeguard against embezzlement, as the receipts may be fraudulently altered; but it is a sufficient safeguard, inasmuch as alteration or erasure can be more or less easily detected. As regards a Cash Paid Book, the same system could be employed *i.e.*, each page would contain three or four cheque forms provided with detachable duplicates, and with counterfoils ruled with money columns. The duplicates would be used for the purpose of posting to the Bought Ledger and Impersonal Ledger accounts, while the counterfoils when totalled would act as a check on the credit side of the "General Cash Book." But there is hardly the same necessity as with money received, because the payments are much less numerous and more subject to supervision. It is, therefore, desirable to retain the old method of writing up the General Cash Book from the particulars on the cheque counterfoils, and to post the Ledger accounts concerned direct from this book.

Slip Ledger.—Where it is desired to make the original slip serve all the purposes of book-keeping, the sale slips are not filed away in

order of date, but are sorted into alphabetical order and placed in separate files or drawers. The personal account of each customer, therefore, consists of loose slips. When transactions are settled, the slips are removed to another set of files or drawers. This system is only suitable for businesses where the number of customers is very numerous but the transactions with each only few in number, *e.g.*, where the customers are chance and not regular ones. It may also be used for businesses where the accounts are nominally on a cash basis, but where it is sometimes necessary to give regular customers seven to ten days' credit. The advantages of this method are that it is absolutely direct, there being no intermediate entry between the original slip and the Ledger, and also that it obviates the risk of error arising from copying.

TRIAL BALANCE

Definition.—A Trial Balance is a schedule or list of balances, both debit and credit, extracted from the accounts in the Ledger, and including the Cash and Bank balances from the Cash Book.

Object of the Trial Balance.—Under double entry the total debits in the Ledger must be equal to the total credits, and the Trial Balance is the recognised method of ascertaining whether this is so or not. The Trial Balance, being an epitome of the Ledger, is also used as material for preparing the Profit and Loss Account and Balance Sheet.

Ways of Constructing a Trial Balance.—A Trial Balance can be constructed in two ways, (1) by means of totals, (2) by means of balances. Taking out the totals on each side of the Ledger accounts is seldom done nowadays. In theory exercises, when everything has been put through the Journal, the total of the debits and credits must also agree with the total of the Journal entries, thus affording an additional check on the accuracy of the postings. The modern method of preparing the Trial Balance is to take out the balances of accounts, ignoring altogether those accounts in which the amounts on the one side correspond with the amounts on the other side. Some business houses, however, take out the Trial Balance in compound form, *i.e.*, the totals and balances side by side. It has the advantage of revealing compensating errors, for the total of the debit column of the Trial Balance must then agree with the total of those subsidiary books that are posted to the debit of accounts in the Ledger; and the total of the credit column of the Trial Balance must likewise agree with the total of those subsidiary books that are posted to the credit of accounts in the Ledger. Where, after repeated attempts, the totals of the Trial Balance cannot be made to agree, the difference is, in practice, put temporarily to a special account entitled "Suspense Account," or "Error in Books," to await developments. But in a properly

organised concern, nothing short of an exact balance can be considered satisfactory.

Trial Balance not an Absolute Proof.—The Trial Balance is a proof only of the *arithmetical* accuracy of the postings; and even so, it is only *primâ facie* evidence of such accuracy. Certain classes of mistakes, as under, are not shown by the Trial Balance prepared in the modern or simple form, *i.e.*, balances only:—

(1) *Omission of Entries.* If both the debit and credit entries of a transaction have been omitted, the Trial Balance will not be affected, and will not therefore reveal the error.

(2) *Compensating Errors.* If one account has been under or over debited or credited with a certain amount—say £20, and another account has been under or over debited or credited with the same amount, it will not prevent the agreement of the Trial Balance. Hence the error will not be revealed.

(3) *Misposting of Accounts.* If £100 has been posted to the credit of R. Smith instead of to the credit of F. Smith, or if £50 has been debited to F. Brown instead of F. Rogers, such a mistake does not throw out the Trial Balance.

(4) *Errors of Principle.* If an item of revenue expense is debited to an asset account (or *vice versa*), the error does not affect the agreement of the Trial Balance and, therefore, it is not revealed.

Common Errors in Trial Balances.—The reason why the totals of many Trial Balances cannot be agreed at the first attempt is very often due to one or more of the following errors :—

(1) *Debit* balances in the Ledger have been entered in the *credit* column of the Trial Balance, and *vice versa*. This, however, would only happen where debtors and creditors were in one Ledger.

(2) Balances missed in extracting lists of debtors or creditors.

(3) Bad figures.

(4) Errors in additions.

(5) Allowances, etc., entered in personal accounts without coming from a Returns Book.

(6) Reversal of figures £18 11s. for £0 18s. 11d., £7 9s. 1d. for £1 9s. 7d.

(7) The Purchases Book and Sales Book totals *not posted* to the Purchases and Sales accounts respectively.

(8) The Discount totals in the Cash Book either *not posted* to the Discount Account, or *misposted*, the sides being frequently reversed in error.

(9) Cash and Bank balances, as per the Cash Book, *omitted* from the Trial Balance, or entered in the *credit* column instead of the debit, an error caused by the balances on the credit side of the Cash Book not having been brought down to the debit side thereof.

Construction of Trial Balance from List of Balances.—Examination questions are sometimes set asking for the preparation of a Trial

Balance from a given list of balances. This means that the items have to be sorted into debits and credits, the totals of which must agree. The procedure is not so simple as it looks at first sight, as students find when they actually essay the task. The following rules will be found useful :—

(1) Assets and Losses are debit balances.

(2) Liabilities and Gains are credit balances.

Thus, regarding Purchases, Wages, Rent, etc., as losses, they will be entered in the *Dr.* column of the Trial Balance ; and looking upon Sales, Discounts Received, Interest Received, etc., as gains, they will be entered in the *Cr.* column. Again, Stock, Plant and Machinery, Bills Receivable, etc., being assets, will be placed in the *Dr.* column ; while Capital, Loans, Bills Payable, etc., being liabilities, will be placed in the *Cr.* column.

In items such as Interest and Discount it must be stated whether they have been received or paid ; while the balances of personal accounts must be indicated as either Dr. or Cr. Sometimes the two sides of the Trial Balance do not agree by a large amount, and if there is no *Capital* mentioned, the difference should be entered as such. In some cases, the question paper states that a business is purchased for a certain sum, but the net assets taken over (*i.e.*, total assets less liabilities) amount to a smaller sum than the purchase price. The difference, of course, is goodwill.

QUESTIONS ON CHAPTER I

A

1. Define " Book-keeping." What are its objects ?
2. Trace briefly the history of book-keeping and its modern additions.
3. What is Capital ? What is a Deficiency ? Explain the terms " trading," ' fixed," " floating," " circulating," " positive," " negative," " loan," and " working " capital.
4. What is meant by " Assets " ? Explain the following terms in reference thereto :—" fixed," " floating," " liquid," " wasting," " fictitious." Give examples showing that " fixed " assets may sometimes be " floating," and *vice versa*.
5. What is meant by an " Account " ? What two main divisions of accounts are there, and how are they subdivided ? Explain what is meant by " real " and " nominal " accounts, and give examples of same. Show by means of examples how some impersonal accounts may be personal in meaning, and also how some accounts may be both real and nominal.
6. How many systems of book-keeping and accounting are there ? Give a short explanation of each.
7. Explain briefly the theory of " double entry," and of " debit and credit."
8. What are the principal advantages of " double entry " ?
9. Explain the signification of the debit and credit balances in a Ledger. Why is their proper classification of great importance ?
10. What are the books used in book-keeping ? Give a short explanation of each class. Explain the meaning and application of the term " subsidiary."

B

1. Define the term "Journal." Explain why the Journal has been gradually superseded by other "books of original entry." Where is the use of the Journal compulsory?

2. Explain the present-day use of the Journal. Why is it important that transfers should always be made by means of Journal entries? What is meant by "narration"?

3. Explain the nature and use of the Purchases Book. What other names has it? How should *Cash* purchases be treated?

4. What are "trade" discounts, and how should they be treated in books? Give examples of some common errors in the Purchases Book.

5. What is meant by a "Guard Book," and a "Trade Purchases Book"?

6. Explain the nature and use of the Sales Book. What other names has it? How should *Cash* sales be dealt with? Are there any exceptions to the general rule?

7. Explain the practice of keeping "odd" and "even" Day Books, and its advantages.

8. Explain, with facsimile ruling, the nature and use of a "Sales Journal."

9. Explain the nature and use of a Purchases Returns Book. What other name has it? What is a Debit Note Book?

10. Explain the nature and use of a Sales Returns Book. What other name has it? What is a Credit Note Book?

11. What is a Cash Book? Explain its use. Is the Cash Book a "principal" or a "subsidiary" book? Give reasons for your answer.

12. Explain the terms "Cash," "Contra," "Dr" and "Cr" in a Cash Book. What are "cross" or "contra" entries?

C

1. What are "cash" discounts, and how should they be treated in the books? What variations are there in practice with regard to the treatment of cheques?

2. How should Cash Sales be treated in the Cash Book? Why are columns for Bills sometimes found in the Cash Book?

3. How is the Cash Book posted to the Ledger as regards (*a*) receipts, (*b*) payments, (*c*) discounts? When is the Cash Book balanced, and why?

4. Explain briefly the nature and use of a "Bank Cash Book." Submit example and make six specimen entries therein.

5. What is a Reconciliation Statement or Account? Submit *pro formâ* example of same.

6. Explain briefly the nature and use of a Petty Cash Book, and its connection with the Cash Book, Journal, and Ledger.

7. What is meant by the Imprest System of keeping the Petty Cash? Give a short account of its operation and advantages. Submit ruling of such a Petty Cash Book, and enter therein six specimen transactions.

8. Explain the nature and use of Bill Books. Submit rulings and make three specimen entries in each book.

9. What is a Ledger? Explain the use of the book and the derivation of the word.

10. What is the object of double money columns in some Ledgers? What is an Index? Explain the use and advantages of Card Indexes.

D

1. Name the usual subdivisions of the Ledger and give a short description of each. What mistake is sometimes made with reference to the use of the term "Nominal Ledger"?

2. What other divisions of Ledgers are sometimes met with? Explain the "sectional" divisions of Ledgers. When should Ledgers be balanced?

3. Describe briefly the nature and use of "Loose Leaf" and "Card" Ledgers.

4. Enumerate (*a*) the advantages and disadvantages of Loose Leaf and Card Ledgers as compared with the ordinary Ledgers, (*b*) the relative advantages of Loose Leaf over Card Ledgers, and *vice versâ*.

5. Write a short description of the "Slip System" of book-keeping or accounting. What advantages are claimed for it?

6. Explain briefly the nature and use of (*a*) Slip Day Book, (*b*) Slip Cash Book, (*c*) Slip Ledger.

7. What is a Trial Balance? What is the object of it?

8. In how many ways can a Trial Balance be constructed? Explain each method and the advantages attaching thereto.

9. What errors are not disclosed by the Trial Balance in its modern form?

10. Describe some of the common errors which prevent the agreement of Trial Balances.

11. State the rule for classifying Ledger balances into debits and credits when preparing a Trial Balance from a given list of balances.

EXERCISE I

1. Journalise the following:—

(*a*) Jan. 15th. Exchanged 3 Carpets, valued at £4 each, for 2 Office Desks worth £12.

(*b*) Exchanged, on Jan. 17th, Office Safe, valued at £20, for Typewriter worth £25.

2. Enter the following transactions into a suitable Purchases Book, showing discounts in full detail:—

		£	s.	d.
Jan. 1.	Bought of A. Brown, 20 bags of Coffee, less 10 % trade discount, net	72	18	–
5.	Purchased from R. Smith & Co., 12 cases of Sugar, less 12½ % trade discount, net	42	14	–
9.	Bought of T. Titus, 6 chests of Tea, less 20 % trade discount, net	36	12	4
15.	Bought of O. Omicron & Son, 20 bags of Coffee, less 7½ % trade discount, net	74	15	5
23.	Purchased of P. Peters, Ltd., 20 cases of Sugar, less 5 % trade discount, net	57	19	–
27.	Bought of L. Lucas, 12 bags of Cocoa, less 25 % trade discount, net	28	14	6

3. Peter Smith sold on 1st February last to John Swift a parcel of Goods to the value of £580 net; the terms of payment were originally cash in a month, but subsequently these terms were altered, Swift arranging to pay £130 in cash on the Goods being delivered, and as to the balance to accept Smith's draft at two months for £250, and at four months for £200, Swift also agreeing to pay in cash Discount at 4 %, with 1 % Commission on the two Bills. This agreement was carried out; the £130 with the Discount and Commission Swift paid, and the two drafts as accepted by him, handed over to Smith.

Make the necessary Journal and Cash Book entries recording this transaction, and post to Ledger Accounts.—(*London Chamber of Commerce.*)

4. Set out below are extracts from the Cash Book (Bank columns only), and Bank Pass Book of J. Bull. Prepare a "Reconciliation Statement" as on December 31st.

CASH BOOK

Dec.	1	To Balance	458	2	6	Dec.	2	By Wages	48	–	–
	4	„ J. Smith & Co.	51	10	8		4	„ Petty Cash	10	–	–
	7	„ Brown Bros.	104	8	6		9	„ Self (Private)	100	–	–
	9	„ Geo. White & Son	44	18	4		14	„ J. Tucker	284	2	9
							16	„ Wages	51	–	–
	11	„ Buller & Co.	124	2	4		20	„ Cheque Book		4	2
	29	„ Plumer & Co.	98	–	2		30	„ Chermside & Co.	41	–	10
	30	„ P. Methuen	208	16	4		31	„ Salaries	35	–	–
	31	„ Cronje & Co.	84	14	9		31	„ Wages	49	–	–
							31	„ Hunter & Co.	101	4	8
							31	„ Balance c/d	455	1	2
			1,174	13	7				1,174	13	7
Dec.	31	To Balance b/d	455	1	2						

BANK PASS BOOK

(J. Bull in A/c with the Blankshire Bank.)

Jan.	1	To Self	50	–	–	Dec.	31	By Balance forward	205	15	5
	1	„ Comm. on Scotch Draft (Plumer & Co.)			6	19— Jan.	1	„ Plumer & Co.	98	–	2
							1	„ Cronje & Co.	84	14	9
	2	„ Hunter & Co.	101	4	8		3	„ J. Dundonald	49	14	8
	2	„ P. Carew	48	1	–		4	„ P. Methuen	208	16	4
	3	„ Comm. on Scotch Draft (J. Dundonald)			3		6	„ J. Smith & Co.	48	13	6
	3	„ Unpaid Draft (Cronje & Co.)	84	14	9						
	3	„ Chermside & Co.	41	–	10						
	7	„ Wages	52	–	–						

(*London Chamber of Commerce.*)

REVISION EXERCISE I

1. Explain what systems of Book-keeping are used in ordinary practice, and state the differences between such systems, and which system, if any, is to be commended above the rest for its adaptability to all classes of business. —(*London Chamber of Commerce.*)

2. What books are generally used in the Office of a Merchant Trader? State their several and respective uses. Give a ruling of a form of Cash Book that you would recommend.—(*London Chamber of Commerce.*)

3. Put the following entries into subsidiary books, and assume that the trader pays all his Cash receipts intact into the Bank, and pays everything (excepting Petty Cash payments) by Cheque. Post to Ledger and draw out Trial Balance.

July 2. Sold Peter Jones 12 pieces Tapestry Carpet, 240 yds., at 1s. 9d. less 2½ % Cash in 7 days.
„ Cash received, Ready Money Sales, £40 10s.
„ Paid William Smith Cheque No. 40, £54; Discount 54s.
3. Cash received, Ready Money Sales, £39 15s.
4. Received John Brown's Cheque, £85; Discount 90s.
„ Cash received, Ready Money Sales, £54.
5. Gave J. Smith & Co. my Acceptance at 3 months for £147 10s., dated 1st inst., balance of account.
„ Cash received, Ready Money Sales, £47.
„ Received William Dart's Acceptance at 2 months, dated 2nd inst., for £126 4s., balance of his account.

July 5. Cash Received, Ready Money Sales, £40.
7. Bought of Jones, Wallace & Co., 20 bales Fancy, at £25 per bale Cash, less 3%.
" Cash Received, Ready Money Sales, £25 6s.
9. " " of Peter Jones, £20 9s. 6d.
" " " Ready Money Sales, £14 10s.
" Gave Jones, Wallace & Co. Cheque £485, No. 41; Discount £15.
10. Sold F. Humble 20 pieces Fancy, at £35 per piece, Cash, 1st September, less 2½ %.
" Salaries and Wages, Pay Sheet to 9th inst., Cheque No. 42, £12 10s. 6d.
" Cash Received, Ready Money Sales, £25.

(*London Chamber of Commerce.*)

4. Andrew Clark, Warehouseman, Leicester, not being satisfied with the result of his Trading, cleared off all his Trade Liabilities at the close of the year; and on the 31st December he had his Stock carefully taken, and a valuation by an expert made of his Real Estate, and then called in Mr. Jones, a chartered accountant, to open up for him a new set of Books. His position, at the date named, was as follows:—He had with the Leicester Old Bank, to his credit on Current Account, £225; and on Deposit Account, £2,500. He had Stock on hand to the value of £6,000, and his Freehold Warehouse was valued at £1,500. His only Liability was to James Thompson, to whom he owed £4,000.

His rule was to pay all his receipts intact into the Bank, and his outgoings by Cheque. He carried on business during the following year, and his transactions may be thus summarised:—

Goods bought	£12,310
Goods sold	15,627
Cash paid for Goods purchased	10,600
Cash received for Goods sold	14,250
Goods returned by Customers	248
Goods returned by Manufacturers	340
Cash transferred from Deposit to Current Account	1,500
Cash paid James Thompson on account of Loan	2,500
Discounts allowed to Customers	230
Andrew Clarke—Payments to him as against anticipated Profits	500
Cash received for Interest on Deposit	100
Cash paid for Interest on Thompson's Loan	225
He also paid in respect of the following:—	
Wages and Trade Expenses	750
Salaries	430
Freight and Carriage	285
Repairs	90

Make the necessary subsidiary book entries, giving effect to the above transactions, post same to Ledger Accounts, and draw out Trial Balance.—(*London Chamber of Commerce.*)

CHAPTER II

TRADING AND PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

BEFORE a discussion of the subject matter of this chapter is proceeded with, it is advisable to explain a few terms which will constantly be made use of in the following pages.

Profit.—This is the surplus that remains after paying expenses and providing for the capital that has been consumed in producing.

Gross Profit.—This is the excess of selling price over buying or cost price.

Net Profit.—The excess of gross profit over the selling and management expenses.

Loss.—This means that the expenses paid and capital employed and consumed during a given period have not been replaced by the proceeds, and that there is therefore a resulting deficiency or loss.

Gross Loss.—Excess of purchase or cost price over selling price.

Net Loss.—This is either (1) excess of selling expenses over gross profit, or (2) the total of gross loss and selling expenses, whenever there is no gross profit.

Turnover.—By this term is meant the total *sales* of a trader during a given period. It must be carefully distinguished from Output, which denotes the quantity of goods *manufactured* by a factory, or the quantity of material *extracted* from a mine, quarry. etc., during a given time.

Percentages of Gross and Net Profit on Turnover.—*Per cent.* is a Latin phrase meaning *per hundred.* In some businesses it is usual to ascertain the percentages of gross and net profit on the total sales each year, in order that comparisons of different years may be made, and any increase or decrease duly noted. Such percentages are found by means of the following formulae :—

$$(a)\ \frac{\text{Gross Profit} \times 100}{\text{Turnover}};\quad (b)\ \frac{\text{Net Profit} \times 100}{\text{Turnover}}$$

Mathematically it may be more correct to make the calculation upon the *cost* price instead of the selling price. In business, however, *cost* is often a difficult thing to determine, as so many obscuring items have to be taken into consideration, such as the difference between the initial and final stocks, wages, freight, carriage, coal

and coke, etc. For the sake of convenience, therefore, the *selling* price is adopted as the common base to which profits are reduced for purposes of comparison.

TRADING ACCOUNT

Definition.—This is an account constructed for the purpose of finding the *gross* profit. On the *debit* side are placed the Stock at the commencement of the period to which the account relates, the Purchases, Carriage, Wages, Rent, etc., of *works* (probably), Coal and Coke, etc. On the *credit* side are placed the Sales and the Closing Stock. The balance between the two sides is the gross profit or loss; the excess of the credit side over the debit side is called the *gross profit;* while if there were possibly an excess of the debit side over the credit side that would be termed the *gross loss*. This balance is transferred to the Profit and Loss Account.

Difference between a Trading Account and a Profit and Loss Account.—The Trading Account deals with the *purchasing and manufacturing expenses*, such as freight and carriage inwards, remunerative or productive wages, coal and coke, etc. The Profit and Loss Account deals with the *selling, establishment and distribution* expenses, such as rent, rates, and taxes (office and warehouse), salaries, freight and carriage outwards, etc.

Difference between a Trading Account and a Cost Account.—A Trading Account contains only *part* of the cost expenses; a Cost Account contains the *whole* of them. Some items of cost vary directly with the turnover; for instance, the greater the turnover, the greater the charge for Wages, Coal and Coke, etc. Other items of prime cost do not vary directly with the turnover; such are Repairs and Renewals of Buildings, Repairs to Plant, Depreciation of Machinery, etc. The rule is, therefore, to charge to Trading Account only such items of prime cost as increase or decrease in direct proportion to the turnover (though the Rent of the works is usually so charged). By this means the rate of gross profit on turnover is kept constant, and a comparison of different years affords useful information. In a Cost Account, on the contrary, all prime cost expenditure, whether extraordinary or variable in nature, would have to be included.

Distinction between a Trading Account and a Manufacturing Account.—Strictly speaking, a Manufacturing Account deals only with *raw materials* and manufacturing expenses. A Trading Account, properly so-called, deals only with *finished* goods, that is, goods ready for sale, whether manufactured or purchased. The balance of the Manufacturing Account is transferred to the debit of the Trading Account.

Stock.—This denotes the value of unsold goods at the opening and close of the trading period. Both stocks go into the Trading

Account; and, in order to distinguish them, the student should adopt the practice of calling them *Stock at start* and *Stock at finish* respectively—at any rate, in the earlier stages of his study of the subject. The Stock at start is the one in the Trial Balance or list of balances; and it is placed on the *debit* side of the Trading Account. The Stock at finish is the one outside the Trial Balance or list of balances; it is generally stated among the adjustments; and it is placed on the credit side of the Trading Account. The Stock at finish must also appear on the assets side of the Balance Sheet. "Stock" is always and distinctly to be understood as "*Stock-in-trade.*" Other stocks, such as Stock of coal, Stock of packages, Stock of stationery, etc., will be definitely stated as such, and must be dealt with separately.

Work in Progress, Orders on Hand.—This item denotes partly executed work, something neither Stock nor Sales. In manufacturing concerns it represents goods in process of manufacture; while in non-manufacturing concerns, it may simply denote partly executed orders. A separate account is opened for it in the Ledger. The Work-in-Progress at start must be *debited* to the Trading Account, and the Work-in-Progress at finish *credited* to the Trading Account. The latter must also appear on the assets side of the Balance Sheet.

Purchases.—This item denotes, in an ordinary business, the total of the cash and credit purchases of goods for resale; while, in a manufacturing concern, it represents the purchases of raw material for the purposes of manufacture. It is debited to Trading Account after deducting any Returns and Allowances relating thereto, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Purchases on the debit side of the Trading Account and the Purchases Returns on the credit side. Students should accustom themselves to look for any Returns and Allowances before they enter the amount of the Purchases in the Trading Account, so as to avoid the necessity for subsequent alteration.

Sales.—This item represents the total of the cash and credit sales during the trading period. It is credited to Trading Account after deducting any Returns and Allowances in connection therewith, the deduction being shown in the Trading Account itself. It is *not* correct to put the gross Sales on the credit side of the Trading Account and the Sales Returns on the debit side. Students should make a point of looking for any Returns and Allowances before entering the Sales in the Trading Account, so as to avoid having to alter the amount subsequently.

Materials Consumed.—This is an item which greatly perplexes the student, and we will therefore give a short explanation of it. In manufacturing businesses it is necessary to ascertain the cost value of the goods sold during the period, and this figure cannot be

obtained without adjusting the opening and closing stocks with the purchases for the period, thus :—

Opening Stock	£3,000
Add Purchases	8,500
	11,500
Less Closing Stock	2,450
Materials Consumed	£9,050

When this item appears in the Trial Balance or list of balances, the Stock which appears therein will be the Stock at finish, it having been debited to Trading Account and credited to the Materials Consumed Account. Taking the illustration given above, a Trial Balance would give either:—

(1) £3,000 and £8,500 as balances with £2,450 stated for adjustment purposes, or,

(2) £9,050 and £2,450 as balances and no adjustment required.

This is the one exception to the general rule that the Stock at finish is always *outside* the Trial Balance. The student must therefore remember that the Stock at finish does *not* in such cases appear in the Trading Account, but *only* in the Balance Sheet. The Trading Account, under such circumstances, assumes the following form :—

Dr. TRADING ACCOUNT *Cr.*

To Materials Consumed . .	9,050	–	–	By Sales (say). .	16,720	–	–
„ Wages . .	2,000	–	–				
„ Balance (Gross Profit) . .	5,670	–	–				
	16,720	–	–		16,720	–	–

Dock Charges.—These are tolls or dues levied on ships and their cargoes when entering or leaving docks. Dock Charges inwards, *i.e.*, on Purchases, should be debited to Trading Account; but Dock Charges outwards, *i.e.*, on Sales, should be debited to Profit and Loss.

Duty.—This includes both Customs and Excise duties. Customs duties are levied on goods imported and exported; excise duties are imposed on goods produced and consumed in the country itself. A distinction must be made between duties on Purchases and duties on Sales, the former being debited to Trading Account and the latter to Profit and Loss.

Freight.—Freight is the charge made for conveyance of goods *by sea*, as opposed to Carriage. Freight Inwards, *i.e.*, on goods

bought, is debited to Trading Account; but Freight Outwards, *i.e.*, on goods *sold*, is debited to Profit and Loss.

Carriage.—This is the charge made for conveyance of goods *by land*, in contradistinction to Freight. Goods are sold either (1) *carriage paid*, or (2) *carriage forward*. This means that in case (1) the *seller* pays the carriage, and in case (2) the carriage has to be paid by the *buyer*. Carriage Inwards increases the cost of the goods purchased, and hence is debited to Trading Account. Carriage Outwards is a selling expense, and is therefore debited to Profit and Loss. In exercises and examination work when Carriage appears in the Trial Balance, and is not specified as being either inward or outward, it is generally assumed to be *inward* and is debited to Trading Account. This is based on the legal aspect of the case, viz., that goods are sold where they stand and the buyer pays carriage. If the student places the Carriage in the Profit and Loss Account, he should guard himself with a note explaining that he has assumed the Carriage to be *outward*.

Cartage or Carting.—This is the charge made for carting goods from warehouse to docks or from docks to warehouse, or from vendor's place of business to buyer's shop or warehouse, etc. These charges should be carefully analysed, those relating to goods *purchased* being debited to Trading Account, and those referring to goods *sold* being debited to Profit and Loss. Sometimes these charges are not posted to special accounts of their own, but are merged in the Carriage Inwards and Carriage Outwards Accounts respectively.

Carriage and Cartage.—In the accounts of builders, contractors, etc., this item is frequently debited to Trading Account. It has been charged (usually at a profit) in the estimate for the work done, and is consequently included in the Sales. The entries on the two sides of the Trading Account, therefore, offset each other.

Wages.—This item denotes the remuneration paid to employees. Borrowing the phraseology of cost accounts, we may say that wages are classified into "remunerative" or "productive" wages, and "unremunerative" or "non-productive" wages. Productive wages are those which are a *direct* charge in the cost of manufacture or production. The term "manufacturing wages" is often employed, and signifies the wages of the factory workpeople and staff. Salaries may also in certain cases be *productive*. When a separate Manufacturing Account is not prepared, such wages and salaries are debited to Trading Account, as they form part of the cost of the goods. For instance, a boot and shoe manufacturer buys raw material, such as leather, and sells a manufactured article, viz., boots and shoes. He could not properly credit the sale of the manufactured articles, *i.e.*, the boots and shoes, against

merely the cost of the raw material, *i.e.*, the leather. The sale of the manufactured article must, of course, be set off against the cost of the manufactured article, which is obviously the cost of the leather plus the wages paid to manufacture it into boots and shoes. Again, take the case of a large rag merchant. He buys goods in one condition, and employs persons to wash, clean, sort, and pack them in another condition ready for sale. Although nothing is, so to speak, manufactured, yet such wages are undoubtedly Trading Wages; the expense had to be incurred before such goods could be sold. Non-productive or unremunerative wages are the wages of carmen, storekeepers, repairers, night watchmen, etc. Such wages are debited to Profit and Loss in the same way as salaries. Wages usually signify some hourly, daily, or piece-work rate of pay; salaries usually denote some fixed weekly, monthly, or yearly remuneration. When, therefore, the student finds a distinction made in the Trial Balance between Wages and Salaries, he should debit the Wages to Trading Account, and the Salaries to Profit and Loss. When Salaries and Wages appear as one item, they should be debited to Profit and Loss, being assumed to be non-productive. Our remarks on this point must not, however, be construed dogmatically, as it is our intention to indicate only general principles and main lines of procedure. Special cases arise which must be determined by their own peculiar circumstances, it being quite impossible to lay down any hard-and-fast rule.

Manufacturing Charges or Expenses.—These are expenses of a miscellaneous description that directly increase the cost of the goods; for instance, the dressing and ironing of shirts and collars when made, the sizing of paper or leather, the purchase of chemicals, etc. When a separate Manufacturing Account is not prepared, such expenses are debited to Trading Account.

Royalties.—These are payments made to a patentee for the right to use his patent in the manufacturing process. Being productive expenses, they are debited to the Manufacturing Account when there is one, or, alternatively, to the Trading Account.

Motive Power (Gas, Electricity and Water).—Gas is sometimes used to run a little gas engine; electric current and hydraulic power are also used to work machinery. These expenses must be debited to Trading Account in the absence of a Manufacturing Account.

Fuel (Coal and Coke, Wood, etc.).—These items being manufacturing expenses, are properly chargeable to the Manufacturing or Trading Account. Any unused stock of such articles must be credited to the account concerned, and only the amount actually used debited to the Manufacturing or Trading Account, as the case may be.

Consumable Stores (Engine-Room Stores).—These are manufacturing charges, and include engine oil, soft soap, tallow, cotton

waste, etc. Like the item mentioned in the previous paragraph, the quantity actually consumed is debited to Trading Account, any unused stock being shown on the assets side of the Balance Sheet.

Rent of Factory.—This item is debited to Trading Account by many accountants, but opinion is divided upon the question. Where a manufacturing firm owns its factory, an assumed amount representing rent of same is often debited to the Trading Account and credited to the Profit and Loss Account. The gross profit, therefore, corresponds with the gross profit which would be shown if the firm rented its premises instead of owned them. This prevents misleading comparisons and false conclusions. In exercises where Rent of Factory is shown separately from other rent, the student should debit it to Trading Account; otherwise, there would appear to be no reason for keeping separate Rent Accounts. The same remark applies to Rates of Factory where these have been separated from the other rates.

Packages, Packing Material.—In many businesses special packages and special packing are required before goods can be considered ready for sale. In such cases this item of expense should be debited to Trading Account, as it would undoubtedly be charged for when fixing the selling price of the goods. In other cases the packing material may be looked upon as a selling expense and debited to Profit and Loss. Any unused stock should be credited in the Ledger Account, and shown as an asset on the Balance Sheet. Where no stock is stated—and this is often the case in examination papers—the whole amount should be assumed to have been used, and be written off in the Trading or Profit and Loss Account as the case may be.

PROFIT AND LOSS ACCOUNT

As with the Trading Account so also with the Profit and Loss Account, we do not intend to confine ourselves to a mere definition, but propose adding a few words of enlightenment upon the usual contents of such an account.

Definition.—A Profit and Loss Account is an account into which all gains and losses are collected, in order to ascertain the excess of the gains over the losses, or *vice versâ*. If the gains exceed the losses, the excess is called the net profit; if the losses are greater than the gains, the difference is called the net loss. American accountants call this account a "Loss and Gain Account," and such term is undoubtedly a more correct designation.

Dock Charges, Duty, Freight, Carriage, Carting.—As mentioned when dealing with the Trading Account, all *outwards* charges in connection with such items are debited to Profit and Loss, because they are *selling* expenses.

Rent.—This is a money payment in return for the use of the business premises. Rent of Factory is, as previously mentioned, sometimes debited to Trading Account and sometimes to Profit and Loss. Two Rent Accounts should be opened whenever any part of the premises is sublet, or whenever rent is received for any property owned by the firm. The object of this is to show the actual gain and loss by Rent. If the Rent Receivable is credited to the Rent Payable Account, the balance of the account conveys a false impression, viz., that the Rent Payable is lower than it really is; and, in the Profit and Loss Account, the income received from Rent is entirely lost sight of. **Ground Rent** is the rent payable to the ground landlord for the use of the land on which the buildings have been erected. Income tax must be deducted from each payment of ground rent. The amount of the tax so deducted may conveniently be debited to the account to which the ground rent has been posted (thus bringing the gross amount into account), and credited to an account, "Commissioners of Inland Revenue." The amount paid for Income Tax Schedule D would be debited to this account, and the balance would be taken to the Profit and Loss Account. If Income Tax has not been paid, then the "Commissioners of Inland Revenue" would be shown on the liabilities side of the Balance Sheet. Ground Rent of manufacturing premises, like Rent of Factory, is sometimes charged to Trading Account.

Rates and Taxes.—These are sums levied by municipal bodies and also by the Government for the purpose of defraying public expenditure. They comprise the poor rate, inhabited house duty, education rate, etc. Income tax, Schedule A (sometimes called Property tax), and Schedule D, is best dealt with in a separate account.

Salaries.—This item denotes the weekly or monthly remuneration of the employees of the firm in return for their services. *Productive* salaries should be charged to Trading Account. Where the business is divided into departments, there is generally a similar subdivision of the salaries. Sometimes the division is into Office, Travellers, and Management Salaries. **Partners' Salaries** should be dealt with separately, as they require special treatment when preparing the firm's accounts for income tax assessment.

Salaries and Wages.—Unless there is something to indicate the contrary, this item of expenditure is regarded as a selling expense and debited to Profit and Loss. If Wages are grouped with Salaries, the former are considered to be non-productive or unremunerative wages. The distinction between a salary and a wage is far from uniform. Some accountants distinguish by the *kind of work* done; payment for work of a mechanical nature is termed a wage, and payment for work of an administrative nature is called a salary. Other accountants differentiate by the *period*

of time covered by the payment; hourly, daily, or weekly rates of pay are called wages, and yearly sums payable half-yearly, quarterly, or monthly, are termed salaries. Again, there are other accountants with whom the criterion is the *amount* of the payment; to such a small weekly sum denotes a wage, and a large weekly or monthly sum represents a salary.

Discount.—This item represents the cash allowances made when accounts are settled. "Discounts Allowed" are a loss, and must be debited to Profit and Loss. "Discounts Received" are a gain, and must be credited to Profit and Loss. The terms "Discounts on Purchases" and "Discounts on Sales" are also in common use; they usually denote the *cash* discounts mentioned above. Students are often tempted to show such discounts in the Trading Account as a deduction from the Purchases and Sales respectively. The terms are certainly unsatisfactory, owing to the ambiguity attaching to them. A purchase or a sale may be subject to both a trade *and* a cash discount; and unless the discount on such purchase or sale is labelled "Cash" or "Trade" it is not possible to state definitely what it really is. In some exercises the size of the discount (10 per cent. and larger), obtained by a rough calculation, may be sufficient indication as to the destination of such discounts. But, generally, the student should, if he puts such discounts into the Trading Account, guard himself with a brief note explaining that such discounts have been assumed to be "Trade" discounts. Since Trade Discount is usually deducted from Sales and Purchases before they are entered in the books, any discount must (except in very special cases) be assumed to be *Cash* Discount. Some accountants prefer the terms "Discounts Receivable" and "Discounts Payable" to any of the foregoing terms. Again, other accountants adopt the terms, "Discounts on Purchases" and "Discounts on Sales" to denote *cash* discounts; but debit the Discount on Sales to Trading Account, and credit the Discounts on Purchases to Profit and Loss, these latter discounts being dependent on the financial resources of the business, while the former are in effect a reduction of the sales to the absolute net figures. The student should always treat the two amounts for discount separately. The object of having two totals is to show the actual gain and loss by Discount. It is not, therefore, correct to subtract one lot of discount from the other, and to deal only with the balance.

Interest.—This item comprises interest charged on overdue accounts, on overdraft, on bills, on current account, etc. Interest on Capital and Drawings is generally dealt with apart from the general interest, in order to facilitate the preparation of Income Tax Returns. Where Interest has been paid on Loans, *less tax*, the tax should be added and treated in the same way as

mentioned under Ground Rent. Interest on Investments will have been received *less tax*, but no adjustment will be necessary. Interest is usually divided into two accounts, Interest Receivable and Interest Payable, and both amounts should be carried to Profit and Loss, the former being credited, and the latter debited.

Commission.—While carrying on business for itself, a firm may also do work for other firms; for which, of course, it *charges* a commission. The student will possibly be familiar with one well-known instance, namely, Consignments Inwards. The firm may likewise employ agents to sell the firm's goods, and in such cases would have to *pay* commission. Two accounts are usually kept, for Commission Receivable and Commission Payable respectively. The former is credited to Profit and Loss as a gain, and the latter is debited to Profit and Loss as a loss.

Insurance.—This item includes all annual premiums payable to Insurance Companies for indemnity (*a*) in the case of loss of goods or property by fire, burglary, flood, etc.; (*b*) in the case of breakage of plate glass windows; (*c*) in the case of damages awarded under the Employers' Liability Act, etc. National Health Insurance payments should preferably be dealt with in a separate account; an adjustment will be required, the Wages Account and Salaries Account being debited and Health Insurance Account credited with the weekly insurance contributions deducted from the wages and salaries of the staff. Insurance, being a loss, is debited to Profit and Loss.

Bank Charges.—These are expenses incurred in the collection of Scotch and Irish cheques. This item often includes charges for cheque books, for keeping current accounts, for discounting bills, etc. Such expenses are losses and are therefore debited to Profit and Loss.

Legal and Accountancy Charges.—Legal expenses comprise solicitors' fees, law charges and expenses in connection with the recovery of debts, in lawsuits, etc. Accountancy Charges consist of the fees and expenses in connection with the investigation or audit of the accounts and books. These expenses are a debit to Profit and Loss.

Printing and Stationery.—Expenditure under this heading consists of payments for paper, envelopes, invoices, statements, account books, etc. It often includes the cost of catalogues, samples, etc. Losses of this nature are debited to Profit and Loss.

Advertising.—Most businesses incur expenditure under this heading, and many owe their success almost entirely to it. Sometimes contracts are entered into and paid for for a period of years in order to obtain cheaper rates. Such money is then debited to an "Advertising Suspense Account," and written off proportionately

each year. Profit and Loss Account is, of course, debited with such an expense.

Repairs.—Repairs and small renewals or replacements relating to the premises, to the plant and machinery, to the fixtures, fittings, utensils, etc., are generally included under this heading; and such expenditure, being a loss, is debited to Profit and Loss.

Postage, Telegrams, and Bill Stamps.—Expenditure of this nature is, like other losses, a charge against profits. Bill Stamps mean, of course, stamps on bills of exchange.

Apprentice Premium.—This denotes the sum of money demanded in return for teaching a person any particular trade or profession. Being income, it is credited to Profit and Loss; but it is generally apportioned, *i.e.*, spread over the period of apprenticeship. Thus a premium of £400 for five years would be transferred to Profit and Loss by annual instalments of £80.

Housekeeping Expenses.—In many businesses such as drapers, outfitters, etc., the assistants "live in." The expense of boarding them is, therefore, a proper charge against the profits.

Travellers' Commission and Expenses.—In those businesses which employ a number of travellers remunerated by means of commission and expenses, such expenditure generally forms a separate item in itself. It is, of course, a debit to Profit and Loss.

Travelling Expenses.—In some businesses much travelling is necessary, either by the principals or travellers, and sometimes by subordinate officials. Expenditure of such a character is generally dealt with as a separate item of expense, and, like other losses, debited to Profit and Loss.

Horse-Keep, Horse and Stable Expenses.—With some firms this is a fairly large item of expenditure of constant recurrence, and warrants, therefore, a separate account. Horse-Keep comprises fodder (hay, straw, etc.) and provender. Stable Expenses includes also wages of stable hands. Such expenditure is debited to Profit and Loss.

Office Expenses.—These are miscellaneous expenses pertaining to the office in contradistinction to the "works," expenses at the latter place being designated "Trade Expenses." The distinction has long been ignored and is now almost non-existent. Such an item is a charge against profits.

Trade Expenses.—Generally speaking these are expenses of a varied nature for which it is not worth opening separate accounts. They are, therefore, amalgamated under the above heading, or under some other similar term, namely, "General Expenses," "Petty Expenses," "Sundry Expenses." As explained in the previous paragraph, the original distinction between Trade Expenses and Office Expenses has almost reached vanishing point; but where it still obtains, Trade Expenses are debited to Trading Account, and

Office Expenses to Profit and Loss. Except in a few isolated instances, therefore, Trade Expenses are debited to Profit and Loss, the term signifying merely miscellaneous *Business* Expenses and not *Trading* Expenses. It should be noted, however, that the original distinction is sometimes maintained under a new guise, by adopting the terms "Works Expenses" and "Office Expenses." To this no objection can be taken; but the term "Trade Expenses" is undoubtedly very ambiguous.

Bad Debts.—This is a loss which unfortunately most businesses sustain, however careful the management may be in allowing credit to customers. Losses of this nature are also debited to Profit and Loss. Should any bad debts written off be subsequently recovered, to any appreciable extent, they should not be deducted from the Bad Debts, but should be shown separately on the credit side of the Profit and Loss Account, being income of an extraordinary nature.

Depreciation.—This is the loss of value sustained by certain assets through wear and tear, etc., *e.g.*, plant and machinery, buildings, furniture and fixtures. If the business is to be put on a sound financial basis, such loss must be estimated and charged against the profits before arriving at the balance called "net profit." We must content ourselves with merely mentioning the matter here, as we shall deal fully with the subject in a subsequent chapter.

ADJUSTMENTS AT BALANCING TIME

These include various items which must be charged, or allowed for, before ascertaining the net profit. Outstanding liabilities and accruing income must be brought to account, expenses prepaid and unexpired income and expenditure must be apportioned, provision must be made for depreciation of assets, while reserves must be created for any expected gains and losses.

Interest on Capital.—This is a very usual adjustment where there are partners in a business. If the same amount of capital had been invested elsewhere, it would have earned interest, and the business is therefore charged with some rate, usually 5 per cent. Interest Account is debited and the partners' Capital or Drawings Accounts are credited with the amount. Such interest, however, is not actually paid to the partners; nevertheless, it operates as a loss to the business, being a charge against the profits, and as a gain to the partners, because it increases their capital.

Outstanding Liabilities.—It very rarely happens that all the liabilities are entered in the books at the date of the half-yearly or yearly balancing. The 30th of June and the 31st December seldom occur at the *end* of a week. They may fall in, or about, the middle of the week. This means that two, three, or four days' Wages and Salaries must be estimated and charged. These wages

and salaries, though not payable, have accrued due; and they must be debited to Profit and Loss, as a year's accounts must contain a year's Wages and Salaries; not a year *less* three or four days. Again, Rent is payable on certain fixed quarter days, and the half-yearly and yearly dates, *i.e.*, Midsummer and Christmas, are 24th June and 25th December, respectively. The Rent for the odd days up to the end of the trading period must, therefore, be calculated and debited to Profit and Loss, so that a year's accounts shall contain a year's rent. In the case of Rates and Taxes, the foregoing remarks will also apply, if the rateable year does not coincide with the trading year. These expenses should be debited to their appropriate Ledger accounts, and credited to an Outstanding Expenses Account. More often than not, however, *no* Journal entry is made; the accruing amounts are debited in their Ledger accounts for the old period, and brought down as credit balances in the same accounts for the new period.

Accruing Income.—It sometimes happens that certain income has accrued due, though it is not actually payable, to the firm. Where part of the premises has been sublet, Rent Receivable up to the time of balancing must be calculated and taken as a profit to Profit and Loss. "Sundry Debtors for Rent" should be debited and "Rent Receivable" credited; or the accrued rent may be adjusted in the Rents Receivable Account itself, by crediting the amount on one side, and bringing it down as a debit balance on the other side. There may also be some Dividends due on Consols or other investments. These should be debited, *less tax*, to an Outstanding Dividends Account, and credited to a Dividends on Investments Account, this later account being duly transferred to the credit of Profit and Loss.

Apportionments.—Expenses are sometimes paid which extend over two or three years, such as those for Advertising. A proportionate part must be calculated each year, and taken as a loss to Profit and Loss. In cases where Telephone Rent, Trade Subscriptions, Fire Insurance, etc., are paid in advance, if the year covered by the payment does not coincide with the trading year, the unexpired values of such payments must be deducted from the amount spent, and carried forward to the *next* year; so that, of the amount spent, only that portion will be charged to Profit and Loss that really relates to the *current* year. The adjustment may be made by means of a Journal entry, *e.g.*, debiting an Unexpired Insurance Account and crediting Insurance Account; or it may be made in the Insurance Account itself, by crediting the unexpired amount on one side, and bringing it down as a debit balance on the other side. Not only is it necessary to apportion expenditure, but it is also necessary to apportion any income received in advance, such as Apprentice Premium, Royalties Received

in Advance, etc. The income received should be divided by the number of years over which it extends, and this will give the amount to be taken to Profit and Loss as the *current* year's share of such income. The adjustment may be made either in the Account itself, or by means of a Journal entry, *e.g.*, in the case of Apprentice Premium, debiting Apprentice Premium Account and crediting an Unexpired Apprentice Premium Account. The former method is usually adopted in practice.

Reserves for Expected Losses.—Of the Sundry Debtors a certain number may be more or less doubtful debts, and provision must be made therefor. This will be done by debiting Profit and Loss, and crediting a Bad Debts Reserve with the estimated amount or with a certain percentage of the total debtors; or, alternatively, debiting Bad Debts Account and carrying the amount down to the credit. Again, the Sundry Debtors may be subject to cash discount. Provision is made for this loss by estimating the amount or by taking a certain percentage of the *good* debts, *i.e.*, the Sundry Debtors less the new Bad Debts Reserve. Such amount is then debited to Profit and Loss Account, and credited to an account entitled Reserve for Discount on Debtors; or, alternatively, debited to Discount Account and carried down to the credit. In addition to these two reserves, a Reserve for Income Tax should be made (in the case of a company) by debiting Profit and Loss Account, and crediting Reserve for Income Tax with the estimated amount of tax payable. A Reserve for Audit Fee is generally made, so that the auditor's charges may appear in the same set of accounts that he has been checking. Otherwise, the audit fee for one year would appear in the next year's accounts, as the auditor cannot send in his account before he has done the work.

Reserves for Expected Gains.—If the Sundry Creditors are subject to cash discount, and are shown on the Balance Sheet at their full figure, it is quite evident we are overstating our liabilities. The amount of such discount is therefore estimated, or calculated by means of a certain percentage of the total creditors, and is then credited to Profit and Loss Account, and debited to an account entitled Reserve for Discount on Creditors; or, alternatively, credited to Discount Account and brought down to the debit.

Unused Stocks.—It often happens at balancing time that there are some unused stocks of printing and stationery, and of catalogues, sample books, circulars, posters and other advertising material. The value of these must be deducted from the amount spent for printing and stationery, advertising, etc., so that only the amount actually used is debited to Profit and Loss. These remarks will also apply to coal, fuel, etc. Only the amount actually used must

be debited to Trading Account. The unused stocks of printing and stationery, advertising material, coal, coke, fuel, etc., must be shown as assets on the Balance Sheet.

Depreciation of Assets.—All the wasting assets must be depreciated; that is, a certain amount must be written off their book value, as they are obviously worth less after each year's use. A fixed rate of 10 per cent. is generally written off Plant and Machinery, about 5 per cent. off Furniture, Fixtures and Fittings, and 2½ per cent. off Land and Buildings. No general schedule of rates can be laid down, however; and they will, consequently, vary according to circumstances. Such a loss is undoubtedly incurred, although indirectly, in the earning of the profit, and must therefore be charged or set off against it. A Depreciation Account is opened and debited with the amounts written off, the asset accounts being credited. The Depreciation Account is then closed by transfer to Profit and Loss.

National Health Insurance, etc.—This is an item which requires adjustment before the books are closed. By the National Health Insurance Act, 1920, and the Widows', Orphans' and Old Age Contributory Pensions Act, 1925, all *manual* workers aged 16 and upwards, whatever their earnings, and, with a few exceptions, all other workers whose remuneration does not exceed £250 per annum, are compelled to contribute, jointly with their employers, to the National Health and Pensions Insurance Fund. The employer buys sheets of Health Insurance stamps, for which he pays (normally) 1s. 6d. a stamp in the case of men, and 1s. 1d. a stamp in the case of women. Each week, however, he deducts (normally) one-half from the wages of each insured employee. The purchase of the stamps is debited to a Health Insurance Account. The wages paid are debited to a Wages Account, and the salaries to a Salaries Account; both accounts are, of course, below their actual figures owing to the deductions. The Health Insurance Account is also in excess of the proper amount, because part of the expenditure has been recovered from the workpeople themselves. An adjustment must be made debiting Wages Account and Salaries Account, and crediting Health Insurance Account, with the total of the deductions. This will raise the Wages Account and the Salaries Account to the proper sums, and, at the same time, reduce the Health Insurance Account to the amount actually borne by the employer. A similar adjustment must also be made for the other rates of contribution.

Unemployment Insurance.—Unemployment insurance was first introduced in the National Insurance Act of 1911, but in 1920 the scheme was amended very considerably and embodied in the Unemployment Insurance Act, 1920. By this Act, compulsory insurance against unemployment is required of substantially all persons in respect of whom Health Insurance contributions are payable, other than outworkers, persons employed in agriculture and

private domestic servants. This weekly contribution required of employer and employed is set out in the following table—

	From Employee.	*From Employer.*	*Total Value of Stamp.*
Men of 18 and over	7d.	8d.	1s. 3d.
Women of 18 and over	6d.	7d.	1s. 1d.
Boys of 16 and under 18	3½d.	4d.	7½d.
Girls of 16 and under 18	3d.	3½d.	6½d.

As in the case of the Health Insurance Account, an adjustment will be necessary in order to raise the Wages Account and the Salaries Account to their proper figures, and to reduce the Unemployment Insurance Account to the amount that has to be borne by the employer.

Note on Health and Unemployment Insurance.—The adjustments mentioned in the previous two paragraphs will be necessary only in the case of *large* firms and companies, who buy insurance stamps in quantities at a time. In the case of small firms, who buy the stamps as and when required, the procedure is to draw the full wages, and deduct the insured employees' contributions. To the deductions is added the amount of the firm's contributions, and with the total sum the requisite stamps are then duly purchased.

CLOSING ENTRIES

Definition.—Closing entries are the Journal entries by means of which (*a*) the Stocks, Purchases, Sales, Returns, Wages, Coal and Coke, etc., are transferred to the Trading Account, (*b*) the various Gains and Losses to the Profit and Loss Account, (*c*) the net profit or loss, and the Drawings (if any), to the Capital Account.

How Accounts are Closed.—Nominal accounts, *i.e.*, those denoting gains and losses, are closed by transfer to Trading Account or to Profit and Loss. Personal accounts, *i.e.*, those of debtors and creditors, are usually closed by actual receipt or payment of the money. Real or Property accounts, *i.e.*, Plant and Machinery, Fixtures, etc., are not closed at all, being merely balanced. To close an account with a debit balance, we must *credit* it with the amount required to make the two sides equal; and to close an account with a credit balance, we must *debit* it with the amount required to make the two sides equal. The accounts containing losses, being debit balances, must be credited "*By Profit and Loss*"; and the gains being credit balances, must be debited "*To Profit and Loss.*"

Formula for Closing Entries.—In actual practice, the closing entries are frequently made direct from the Ledger accounts themselves to the Trading and Profit and Loss Account; but, in examination work, it is often necessary to know how to make the requisite Journal entries. All the items (except Stock at finish, adjustments, etc.) are obtained from the Trial Balance. In business

the Stock at finish can be ascertained only by actual stock-taking, and in an exercise, must be definitely stated. Sometimes there is no Stock at start in the Trial Balance, and this fact greatly perturbs students. But it is quite all right. In the first year of business the capital may be all in money ; everything has then to be bought ; and so the first year's Trading Account will start with Purchases instead of Stock. There will, however, be a Stock at finish. The method of procedure is, therefore, as follows :—

1. *Debit* Trading Account with the total of the following : Stock at start, Purchases less Returns, Wages, Carriage Inwards, Coal and Coke (if any), and *credit* each of these said accounts.
2. *Credit* Trading Account with the total of Sales less Returns, Stock at finish, and *debit* the accounts named.
3. Subtract the *debit* total of Trading Account from the *credit* total of Trading Account, and the balance will be the *gross* profit.
4. Carry down the amount of the gross profit to the credit of the Profit and Loss Account, *debit* Discounts Received Account, and other Profit Accounts (if any) with their respective amounts, and *credit* Profit and Loss Account with the total of all these gains.
5. *Debit* Profit and Loss Account with the total of all of losses shown in the various accounts, and *credit* each of the latter.
6. Subtract the *debit* total of Profit and Loss Account from the *credit* total of Profit and Loss Account, and the balance will be the *net* profit.
7. *Debit* Profit and Loss Account, and *credit* Capital Account, with the amount of the net profit.
8. *Debit* Capital Account, and *credit* Drawing Account, with the amount of the Drawings (if any).

In the event of a *gross loss*, this will be debited to Profit and Loss along with the other losses, as stated in No. 5.

In the event of a *net loss*, Capital Account must be *debited*, and Profit and Loss Account *credited*, with the amount thereof—in fact, just the reverse procedure of No. 7.

BALANCE SHEET

Definition.—A Balance Sheet is a statement prepared from the books of a concern showing the debit and credit balances thereof, whether actual assets and liabilities or not, and the balance, whether of Capital, Reserve, or Profit, at a given date. An alternative definition is that a Balance Sheet is a statement drawn up at the end of each trading or financial period, setting forth the various assets and liabilities of the concern as at this date. It is also described as a classified summary of the debit and credit balances existing in the Ledger after the Profit and Loss Account has been

constructed. This is because a Balance Sheet often contains items which cannot, strictly speaking, be characterised either as assets or as liabilities.

What a Balance Sheet tells us.—A properly drawn up Balance Sheet should give us information on four important points :—

(1) The nature and value of the assets.
(2) The nature and extent of the liabilities.
(3) Whether the firm is solvent.
(4) Whether the firm is overtrading.

If the assets exceed the liabilities, the firm is solvent, that is, able to pay its debts in full. A business is, therefore, solvent by the amount of the capital in it, since Capital itself is the excess of assets over liabilities. The last point, No. 4, concerns the stability of the business. If the total of the debts due to Creditors (including Bank if an overdraft) is greater than the liquid assets (Cash, Investments, Bills, etc., *i.e.*, the resources readily available to pay them), the position of the firm may be financially unsound. Where debts are being contracted without sufficient means of payment, the firm is said to be overtrading. Further, for the position to be quite sound, there should be some working capital, that is, some spare liquid assets available for current expenditure. It is not a wise policy to lock up the capital in fixed assets. It means that the firm must eventually resort to loans, the interest on which runs away with the profits. The concern may, therefore, be solvent without being sound.

Difference between a Trial Balance and a Balance Sheet.—A Trial Balance is a list of *all* the Ledger balances, not only assets and liabilities, but also gains and losses. A Balance Sheet is a list of a *part* only of the Ledger balances, *i.e.*, those remaining after the profit and loss items have been dealt with—the assets and liabilities.

Controversy re Form and Headings of Balance Sheet.—In the Ledger, the Assets appear on the debit or left-hand side, and the Liabilities on the credit or right-hand side. Since the Balance Sheet purports to represent the state of affairs *as shown by the books* of the business, it follows that the assets and liabilities should appear on the same sides of the Balance Sheet as the sides they are on in the Ledger. But, in the English form of Balance Sheet, the sides are reversed. This is no doubt owing to the mistaken idea that the Balance Sheet is an *account*, whereas it is really only a *statement*. What may be said to be the more technically correct form is, however, in use by American, and by some English and Scotch accountants ; but the mode of stating the assets on the right-hand side and the liabilities on the left is now almost universally accepted. Some accountants still maintain that the Balance Sheet *is* an account, and one that shows the relation of

the business to the proprietor and to outsiders; that the business must, therefore, be *credited* with its possessions, *i.e.*, the assets, and *debited* with its liabilities (*a*) to outside persons or creditors; (*b*) to the proprietor for capital. Other accountants regard this as a lame attempt to justify an otherwise indefensible position, and characterise it as an extravagant and convenient fiction. The earlier writers on English book-keeping did not construct a Balance Sheet at all, but only a Balance Account, the sides of which corresponded exactly with the sides of the Ledger, viz., assets on the debit side and liabilities on the credit side. The prescribed Balance Sheet attached to the Companies Act, 1862, seems to have been responsible for fixing the present *form* of Balance Sheet. Not only upon the form, but also upon the nomenclature of the Balance Sheet, there has raged a protracted and, at times, acute controversy. A Balance Sheet, not being an account, does not require to be headed with the contractions "Dr." and "Cr."; while the words "To" and "By," prefixed to the liabilities and assets respectively, are equally superfluous. The headings "Assets" and "Liabilities" have also evoked much criticism. Although not entirely satisfactory they are, in the main, correct. Other items, it is true, are met with which cannot be so classed, viz., Reserves, Sinking Funds, Preliminary Expenses, Income received in Advance, etc. Balance Sheets are sometimes met with in which the headings "Assets" and "Liabilities" have been omitted altogether. The suggested headings: *Capital Reserves and Liabilities: Property, Assets and Expenditure:* still fall short of exactness. *Liabilities and Sundry Credit Balances, Assets and Sundry Debit Balances*, would be nearer the mark; while the headings, *Ledger Credits, Ledger Debits*, would be exact designations but not very explanatory. In double-entry book-keeping a business is regarded as a separate entity, that is, as existing apart from the proprietor of it. The Balance Sheet is, therefore, the Balance Sheet of the business, and not of the proprietor. That is why Capital is shown as a liability, being a debt due by the business to the proprietor of it. In his private Balance Sheet, the proprietor would show as one of his assets: "Capital in such and such a Business." This is quite in harmony with the principle of double entry.

Order of Stating Assets and Liabilities on a Balance Sheet.—The question often arises, in the student's mind, as to the order in which the assets and liabilities should be entered on the Balance Sheet. Which should come first? Which should follow? Which should come last? And what is the reason for any particular order? Different methods are in vogue in business. By one method the Assets are stated in the *order of realisability*, that is, the order in which they can be converted into Cash; while the

Liabilities are stated in the order in which they would be discharged, that is, paid off with the cash realised by the sale of the assets. The arrangement is, therefore, as follows :—

BALANCE SHEET

Liabilities.				*Assets.*			
Bills Payable				Cash			
Loans				Investments			
Creditors				Bills Receivable			
Outstanding Expenses				Debtors			
Income Received in advance				Stock-in-trade			
Partners' Advances				Plant and Machinery			
Capital A/cs				Furniture and Fixtures			
				Land and Buildings			
				Goodwill			
				Unexpired Values			

By another method, the Assets and Liabilities are stated in the *order of permanence*, the fixed assets and liabilities taking precedence of the floating assets and liabilities.

The Balance Sheets of some commercial concerns, *e.g.*, banks, partake of both methods, the Assets being stated in the Cash order, and the Liabilities in the order of permanence. Another variation is sometimes met with in practice. The floating assets and liabilities are marshalled first, but the Liabilities begin with the Creditors, and the Assets with the Debtors. Cash is sometimes placed next to the Bills Receivable, and sometimes last of all.

In the case of a bank the cash is put first as that showing its stability—it being theoretically said that the first item strikes the eye most.

AMERICAN BALANCE SHEET

Assets.				*Liabilities.*			
Cash				Mortgages			
Investments				Bonds			
Real Estate				Accounts payable			
Plant and Machinery				Bills payable			
Stock				Outstanding Expenses			
Accounts receivable				Capital			
Bills receivable				Reserve			
Goodwill				Profit and Loss A/c			
Patents, etc.							

Worked Examples.—We now propose to give two exercises, one fairly easy and one more difficult, on the preparation of a Trading and Profit and Loss Account and Balance Sheet, and to show the full working of the same. The student should not be content to follow the key mentally, but should actually work the exercise in his own books step by step with the key. He should then work and re-work the exercise without the assistance of the key, and should not pass on until he can do it accurately.

Example 1.—From the following Trial Balance, extracted from the books of J. & J. Robinson, prepare a Trading Account and a Profit and Loss Account for the year ended December 31st, 19.., and a Balance Sheet as on that date.

TRIAL BALANCE.	*Dr.*			*Cr.*		
James Robinson, Capital Account				5,000	–	–
Joshua „ „ „				4,000	–	–
James „ Drawings Account	437	10	–			
Joshua „ „ „	246	11	7			
Land and Buildings	2,500	–	–			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures	125	8	4			
Carriage	437	1	4			
Wages (Manufacturing)	2,147	6	1			
Salaries	467	10	0			
Bad Debts Reserve (as on 1st Jan., 19—)				247	6	2
Sales				9,122	16	9
„ Returns	176	2	7			
Bank Charges and Interest	14	4	6			
Coal, Gas, and Water	72	1	7			
Rates and Taxes	84	7	6			
Discount Account (balance)				12	7	6
Purchases	4,216	17	2			
„ Returns				846	2	2
Bills Receivable	127	10	–			
Trade Expenses	49	7	9			
Sundry Debtors	3,781	15	9			
Sundry Creditors				1,217	15	1
Stock (1st Jan., 19—)	2,642	14	8			
General Expenses	149	1	5			
Fire Insurance	49	15	–			
Apprentice Premium				50	–	–
Cash at Bank and in hand	1,344	4	10			
	20,496	7	8	20,496	7	8

Charge Depreciation on Land and Buildings Account at 2½ %, on Plant and Machinery Account at 10 %, and on Furniture and

Fixtures at 10 %. Make a reserve of 5 % on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts:—

(1) Fire Insurance	£12	7	2
(2) Rates and Taxes	24	2	6
(3) Apprentice Premiums	40	–	–

Charge 5 % Interest on Capital but not on Drawings. Profits and Losses are to be shared in the following proportions:—James Robinson, five-ninths, Joshua Robinson, four-ninths.

The value of the Stock as on December 31st, 19.., was agreed at £2,939 9s. 3d.—(*Royal Society of Arts.*)

(1) Journal Entries for Adjustments

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Depreciation	217	14	7			
	To Land and Buildings				62	10	–
	2½ % of £2,500.						
	To Plant and Machinery				142	13	9
	10% of £1,426 17s. 7d.						
	To Furniture and Fixtures				12	10	10
	10 % of £125 8s. 4d.						
31	Unexpired Fire Insurance	12	7	2			
	To Fire Insurance				12	7	2
	Transfer of amount prepaid.						
31	Unexpired Rates and Taxes	24	2	6			
	To Rates and Taxes				24	2	6
	Transfer of amount prepaid.						
31	Apprentice Premium	40	–	–			
	To Unexpired Apprentice Premium				40	–	–
	Transfer of amount prepaid.						
31	Interest on Capital	450	–	–			
	To James Robinson, Capital A/c.				250	–	–
	5% on £5,000.						
	To Joshua Robinson, Capital A/c.				200	–	–
	5% on £4,000.						
31	Bad Debts Reserve	58	4	5			
	To Provision for Bad Debts.				58	4	5
	Old Reserve . 247 6 2						
	Less New . 189 1 9						

(2) Closing Entries

JOURNAL.

19—		Dr.			Cr.		
Dec. 31	Trading Account	8,669	18	8			
	To Stock (at commencement) .				2,642	14	8
	,, Purchases . 4,216 17 2						
	Less Returns 846 2 2						
					3,370	15	–
	,, Carriage				437	1	4
	,, Wages				2,147	6	1
	,, Coal, Gas, and Water . .				72	1	7
	Balances transferred.						
	Sales . . 9,122 16 9						
	Less Returns . 176 2 7						
		8,946	14	2			
	Stock (at close)	2,939	9	3			
	To Trading Account . . .				11,886	3	5
	Balances transferred.						
31	Trading Account (gross profit) .	3,216	4	9			
	Discount	12	7	6			
	Apprentice Premium . £50						
	Less Amount c/f . 40						
		10	–	–			
	Bad Debts, Old Reserve 247 6 2						
	Less New Provision 189 1 9						
		58	4	5			
	To Profit and Loss Account .				3,296	16	8
	Balances transferred.						
31	Profit and Loss Account. . .	1,445	11	1			
	To Salaries				467	10	–
	,, Bank Charges . . .				14	4	6
	,, Trade Expenses . . .				49	7	9
	,, General Expenses . .				149	1	5
	,, Fire Insurance 49 15 0						
	Less Amount c/f 12 7 2						
					37	7	10
	,, Rates and Taxes 84 7 6						
	Less Amount c/f 24 2 6						
					60	5	–
	,, Depreciation :—						
	Land and Buildings . .				62	10	–
	Plant and Machinery . .				142	13	9
	Fixtures and Fittings . .				12	10	10
	,, Interest on Capital :—						
	James Robinson . . .				250	–	–
	Joshua Robinson . . .				200	–	–
	Balances transferred.						
31	Profit and Loss Account. . .	1,851	5	7			
	To Capital A/c, Jas. Robinson,				1,028	9	9
	,, ,, ,, Josh. ,,				822	15	10
	Respective shares of profit transferred.						

	JOURNAL—*continued.*	Dr.	Cr.
19—			
Dec. 31	Capital A/c—James Robinson . .	437 10 –	
	To his Drawing A/c . . .		437 10 –
	Balance transferred.		
31	Capital A/c—Joshua Robinson .	246 11 7	
	To his Drawing A/c . . .		246 11 7
	Balance transferred.		

Note 1.—As a distinction is made in the Trial Balance between Trade Expenses and General Expenses, the former may be debited to Trading Account. The student should guard himself with a note, however, explaining that such expenses have been assumed to be productive or manufacturing expenses.

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

To Stock (at start) .		2,642 14 8	By Sales . . .	9,122 16 9		
„ Purchases . .	4,216 17 2		Less Returns .	176 2 7		
Less Returns .	846 2 2				8,946 14 2	
	3,370 15 –		„ Stock (at finish) .		2,939 9 3	
„ Carriage . .	437 1 4					
„ Wages . .	2,147 6 1					
„ Coal, Gas, and Water . .	72 1 7					
„ Balance (Gross Profit) . .	3,216 4 9					
	11,886 3 5				11,886 3 5	
To Salaries . .	467 10 –		By Trading A/c (Gross Profit) . .		3,216 4 9	
„ Bank Charges, etc.	14 4 6		„ Discounts . .		12 7 6	
„ Trade Expenses .	49 7 9		„ Apprentice Premium . .	50 – –		
„ General Expenses	149 1 5		Less Amount c/f	40 – –		
„ Fire Insurance .	49 15 –				10 – –	
Less Amount c/f	12 7 2					
	37 7 10					
„ Rates and Taxes .	84 7 6		„ Bad Debts Reserve	247 6 2		
Less Amount c/f	24 2 6		Less New Provision, 5% £3,781 15s. 9d. . .	189 1 9		
	60 5 –				58 4 5	
„ Depreciation—						
Land and Buildings, 2½% £2,500 . .	62 10 –					
Plant and Machinery, 10% £1,426 17s. 7d.	142 13 9					
Furniture and Fittings, 10% £125 8s. 4d. .	12 10 10					
	217 14 7		The tendency, in modern practice, is to show in a separate continuation of the Profit and Loss Account the adjustments (partners' salaries, if any, and interest on capital) and divisions of profits between the partners.			
„ Interest on Capital—						
J. Robinson, 5% £5,000 .	250 – –					
Jos. Robinson, 5% £4,000 .	200 – –					
	450 – –					
„ Balance (Net Profit)—						
Jas. Robinson, ⅝	1,028 9 9					
Jos. Robinson, ⅜	822 15 10					
	1,851 5 7					
	3,296 16 8				3,296 16 8	

Note 2.—Instead of showing the Returns as deduction from the Purchases and Sales as above, some accountants prefer to transfer the Returns to the Purchases Account and Sales Account respectively. The transfers would be made by Journal entries, thus :—

			£	s.	d.	£	s.	d.
Dec. 31.	Sales Account	.	176	2	7			
,, ,,	To Sales Returns	.				176	2	7
,, ,,	Purchases Returns	.	846	2	2			
,, ,,	To Purchases Account	.				846	2	2

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.						*Assets.*					
Sundry Creditors				1,217	15	1	Cash at Bank and in hand				1,344	4	10
Unexp red Apprentice Premium				40	–	–	Bills Receivable				127	10	–
Capital Accounts—							Sundry Debtors	3,781	15	9			
James Robinson, 1st Jan.	5,000	–	–				*Less* Bad Debts Reserve	189	1	9			
Add Interest	250	–	–								3,592	14	–
,, Share of Profit	1,028	9	9				Stock-in-trade				2,939	9	3
	6,278	9	9				Furniture & Fixtures	125	8	4			
Less Drawings	437	10	–				*Less* Depreciation	12	10	10			
											112	17	6
							Plant and Machinery	1,426	17	7			
				5,840	19	9	*Less* Depreciation	142	13	9			
											1,284	3	10
Joshua Robinson, 1st Jan.	4,000	–	–				Land and Buildings	2,500	–	–			
Add Interest	200	–	–				*Less* Depreciation	62	10	–			
,, Share of Profit	822	15	10								2,437	10	–
	5,022	15	10				Unexpired Fire Insurance				12	7	2
Less Drawings	246	11	7				Unexpired Rates and Taxes				24	2	6
				4,776	4	3							
				11,874	19	1					11,874	19	1

Example 2.—A and B were in partnership as Manufacturing Ironmongers. Their Capital Accounts, as on December 31st, 19.., were equal. The partnership agreement provided that A should take £300 of the profits before B received any share. The balance was to be divided equally between them. During the year ended December 31st, 19... drawings were made by A at the rate of £50 a month, and by B at the rate of £6 a week.

On December 31st, 19.., the Ledger Balances, in addition to those of the Partners' Capital and Drawing Accounts, were as shown below

On December 31st, 19.., the Stock in hand was valued and agreed at £6,928 4s. 6d., the Work in Progress was certified at £301 6s. 1d., and the Loose Tools at £406 13s. 2d.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended December 31st, 19.., and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration :—

(1) The Auditors called the Partners' attention to the fact that

the Leasehold Premises had not been depreciated in the past. The lease has 15 years to run, and it is decided to write off the book value by equal annual instalments.

(2) 10 % Depreciation is to be written off Plant and Machinery as on January 1st, and 5 % off the additions made during the year.

(3) £50 depreciation is to be written off Furniture and Fittings.

(4) Wages Account is found to include £47, paid to men who were occupied repairing machinery; and it is decided to transfer this amount to its proper account, and also to put through a transfer of £121 2s. 7d. as representing the cost of material used out of stock for such repairs.

(5) The unexpired portions of Rates and Insurance were, on December 31st, 19.., £27 2s. 3d. and £14 0s. 1d. respectively.

(6) It is decided to create a Reserve for Bad Debts amounting to 5% on the Sundry Debtors.

Note.—No interest on capital or drawings to be charged.

BALANCES OF LEDGER ACCOUNTS, DEC. 31st, 19..

Cash at Bank	£280 2 8
Cash in hand	37 15 2
Plant and Machinery (including additions during the year of £345 2s.)	4,018 2 1
Furniture and Fittings	273 14 7
Discount account (Debit Balance)	47 3 1
Manufacturing Wages	7,649 12 10
Salaries	962 13 6
Purchases	20,747 16 11
Carriage	467 4 9
Office Expenses	212 6 2
Postage and Stationery	42 15 1
Leasehold Buildings	1,500 – –
Sales	34,242 12 7
,, Returns	347 13 7
Purchases Returns	742 12 –
Stock (1st Jan., 19..)	6,738 – 2
Sundry Debtors	9,261 12 6
Work in Progress (1st Jan., 19..)	276 14 11
Advertising	117 17 1
Bad Debts	135 2 7
Interest on Temporary Loan (repaid November)	6 7 10
Loose Tools (1st Jan., 19..)	431 14 2
Rent, Rates, and Taxes	346 15 3
Insurance	92 4 2
Commission	114 9 11
Lighting and Heating	102 4 7
Sundry Creditors	2,136 19 –

—(*Royal Society of Arts.*)

(In a question such as the above, the student should, if time permits, prepare a Trial Balance.)

(1) Journal Entries for Adjustments

JOURNAL.		Dr.			Cr.		
19—							
Dec. 31	Depreciation	534	11	1			
	To Lease				100	–	–
	$\frac{1}{15}$ of £1,500						
	To Plant and Machinery . .				384	11	1
	10% £3,673 0s. 1d. = £367 6s., and 5% £345 2s. = £17 5s. 1d.						
	To Furniture and Fixtures . .				50	–	–
	Amounts written off respectively.						
31	Repairs	168	2	7			
	To Materials Used for Repair .				121	2	7
	,, Wages				47	–	–
	For repairs to Machinery carried out by own workmen.						
31	Unexpired Insurance . . .	14	–	1			
	To Insurance				14	–	1
	Balance carried forward.						
31	Unexpired Rates	27	2	3			
	To Rent, Rates, and Taxes . .				27	2	3
	Balance carried forward.						
31	Provision for Bad Debts. . .	463	1	8			
	To Bad Debts Reserve . .				463	1	8
	5% of Sundry Debtors, £9,261 12s. 6d.						

(2) Closing Entries

JOURNAL.		Dr.			Cr.		
19—							
Dec. 31	Trading A/c	35,521	11	9			
	To Stock				6,738	–	2
	,, Work in Progress . . .				276	14	11
	,, Loose Tools				431	14	2
	,, Purchases . 20,747 16 11						
	Less Returns 742 12 0						
					20,005	4	11
	,, Manufacturing Wages . .				7,602	12	10
	,, Carriage				467	4	9
	Balances transferred.						

JOURNAL—*continued.*

19—		Dr.			Cr.		
Dec. 31	Sales . . . £34,242 12 7						
	Less Returns . 347 13 7						
		33,894	19	–			
	Materials Used for Repair . .	121	2	7			
	Stock	6,928	4	6			
	Work in Progress	301	6	1			
	Loose Tools	406	13	2			
	To Trading A/c				41,652	5	4
	Balances transferred.						
31	Trading A/c	6,130	13	7			
	To Profit and Loss A/c . .				6,130	13	7
	Gross Profit transferred.						
31	Profit and Loss A/c . . .	3,304	12	3			
	To Discount				47	3	1
	,, Salaries				962	13	6
	,, Office Expenses . . .				212	6	2
	,, Postage and Stationery. .				42	15	1
	,, Advertising				117	17	1
	,, Bad Debts				135	2	7
	,, Interest on Loan . . .				6	7	10
	,, Rent, Rates, and Taxes. .				319	13	–
	,, Insurance				78	4	1
	,, Commission				114	9	11
	,, Lighting and Heating .				102	4	7
	,, Depreciation . . .				534	11	1
	,, Repairs				168	2	7
	,, Provision for Bad Debts. .				463	1	8
	Balances transferred.						
31	Profit and Loss A/c . . .	300	–	–			
	To A—Capital A/c . . .				300	–	–
	Preferential claim on profits.						
31	Profit and Loss A/c . . .	2,526	1	4			
	To A—Capital A/c . . .				1,263	–	8
	,, B—Capital A/c . . .				1,263	–	8
	Respective shares of profit transferred.						
31	A—Capital A/c	600	–	–			
	To his Drawing A/c . . .				600	–	–
	Balance transferred.						
31	B—Capital A/c	312	–	–			
	To his Drawing A/c . . .				312	–	–
	Balance transferred.						

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

To Stock, 1st Jan.				6,738	–	2	By Sales			34,242	12	7		
„ Work in Progress, 1st Jan.				276	14	11	Less Returns			347	13	7	3,894	19 –
„ Loose Tools, 1st Jan.				431	14	2	„ Materials used for Repairs						121	2 7
„ Purchases	20,747	16	11				„ Stock, 31st Dec.						6,928	4 6
Less Returns	742	12	–				„ Work in Progress, 31st Dec.						301	6 1
				20,005	4	11	„ Loose Tools, 31st Dec.						406	13 2
„ Manufacturing Wages	7,649	12	10											
Less Transfer to Repairs A/c	47	–	–											
				7,602	12	10								
„ Carriage				467	4	9								
„ Balance (Gross Profit) c/d				6,130	13	7								
				41,652	5	4							41,652	5 4
To Discount				47	3	1	By Balance (Gross Profit) b/d						6,130	13 7
„ Salaries				962	13	0								
„ Office Expenses				212	6	2								
„ Postage and Stationery				42	15	1								
„ Advertising				117	17	1								
„ Bad Debts				135	2	7								
„ Interest on Loan				6	7	10								
„ Rent, Rates, and Taxes	346	15	3											
Less Amount c/f	27	2	3											
				319	13	–								
„ Insurance	92	4	2											
Less Amount c/f	14	–	1											
				78	4	1								
„ Commission				114	9	11								
„ Lighting and Heating				102	4	7								
„ Depreciation— Lease, $\frac{1}{18}$ of £1,500				100	–	–								
Plant and Machinery, 10% £3,673 0s. 1d.	367	6	–											
Plant and Machinery, 5% £345 2s.	17	5	1											
				384	11	1								
Furniture and Fixtures				50	–	–								
„ Repairs— Materials used	121	2	7											
Wages Paid	47	–	–											
				168	2	7								
„ Provision for Bad Debts, 5% £9,261 12s. 6d.				463	1	8								
„ Balance (Net Profit) c/d				2,826	1	4								
				6,130	13	7							6,130	13 7
To A—Capital A/c as per agreement				300	–	–	By Balance (net profit) b/d						2,826	1 4
„ Balance— A—Capital A/c, $\frac{1}{2}$	1,263	–	8											
B— „ „ $\frac{1}{2}$	1,263	–	8											
				2,526	1	4								
				2,826	1	4							2,826	1 4

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.							*Assets.*						
Sundry Creditors				2,136	19	–	Cash in hand			37	15	2	
Capital Accounts—							Cash at Bank			280	2	8	
A—1st Jan., 19—	9,000	–	–										317 17 10
Add Share of Profit	1,563	–	8				Sundry Debtors			9,261	12	6	
							Less Bad Debts Reserve			463	1	8	
	10,563	–	8										
Less Drawings	600	–	–				Stock						8,798 10 10
				9,963	–	8	Work in Progress						6,928 4 6
B—1st Jan., 19—	9,000	–	–				Loose Tools						301 6 1
Add Share of Profit	1,263	–	8				Furniture and Fixtures			273	14	7	406 13 2
							Less Depreciation			50	–	–	
	10,263	–	8										223 14 7
Less Drawings	312	–	–				Leasehold Buildings			1,500	–	–	
				9,951	–	8	*Less* Depreciation			100	–	–	1,400 – –
							Plant and Machinery			4,018	2	1	
							Less Depreciation			384	11	1	
													3,633 11 –
							Unexpired Rates						27 2 3
							Unexpired Insurance						14 – 1
				22,051	–	4							22,051 – 4

Another method of adjustment is, to transfer the £121 2s. 7d. (Materials used for Repairs) to the Purchases Account and state the amount net—also to set the £406 13s. 2d. against the £431 14s. 2d. (Loose Tools), showing a net figure of £25 1s. as "Consumption of tools," or "Tools used." Similarly, "Work in progress" is frequently adjusted with sales, and the item described as "Production."

SPECIAL POINTS TO WATCH IN EXERCISES

Period Covered by the Trading and Profit and Loss Account.—This is a point that should be carefully noted by the student. If it is not definitely stated, it can usually be ascertained by comparing the dates of the Stock at start and the Stock at finish. Sometimes the rates for depreciation and the rate of interest on capital are stated to be *per annum*, and if the period covered by the Trading and Profit and Loss Account is only six months, *i.e.*, for the half-year, such rates must be dealt with accordingly. The percentage for the Bad Debts Reserve or Discount Reserve, however, will not be affected. If these are given as 5 per cent., they will be 5 per cent. (actual) of the Sundry Debtors, whether the Account is for six or for twelve months, the period of time making no difference to these particular items.

Adjustments in the Trading Account.—Students who have got accustomed to working exercises in which the whole of the adjustments affect merely the Profit and Loss Account, are often greatly disconcerted by an exercise which requires adjustments in the Trading Account. They get their Trading Account balanced and ruled off, and their gross profit brought down to the Profit and

Loss Account, and towards the end of the exercise perhaps discover some adjustments for the Trading Account. It is true such adjustments do not often occur, but they may. There may be Wages owing, Freight, Carriage, etc., due. Students should not take it for granted that all the adjustments are for the Profit and Loss Account; they should look through them and make quite sure before balancing their Trading Account.

Interest on Capital.—In some exercises interest on capital is not shown in the adjustments which are duly set out and numbered. It will be found mentioned in the reading matter either at the beginning or end of the exercise. Students are therefore apt to overlook it, and consequently bring out the wrong net profit and produce an inaccurate Balance Sheet.

Interest on Loan.—Sometimes the Trial Balance in the exercise will contain the item, "Interest on Loan (for half-year)." If the period covered by the Trading and Profit and Loss Account is one year, then the other half-year's interest must be worked out and put in the Profit and Loss Account, whether it is mentioned in the adjustments or not, because a year's accounts must contain a year's interest if the loans have been outstanding for the year.

Stock at finish in the Trial Balance.—This occurs only when there is a Materials Consumed Account in the Trial Balance or List of Balances. Its special treatment under such circumstances has been pointed out in our remarks on the contents of the Trading Account, to which the student should refer.

Bad Debts Not Written Off.—In some exercises the Bad Debts have not been written off, and the student is told to do this. The student thinks it quite simple, and promptly puts them in the Profit and Loss Account. More often than not, however, he fails to complete the double entry by making a corresponding deduction from the Sundry Debtors, with, of course, disastrous effects on the accuracy of his work. For example, take the following Trial Balance (purposely condensed):—

TRIAL BALANCE.	*Dr.*			*Cr.*		
Sundry debit balances	5,082	–	–			
Sundry Debtors	2,560	–	–			
Sundry credit balances . . .				7,642	–	–
	7,642	–	–	7,642	–	–

Suppose the Bad Debts not written off are £60, and that a Bad Debts Reserve of 5 per cent. is required to be made. The Bad

Debts Reserve would be 5 per cent. of £2,500, and not 5 per cent. of £2,560. In the Balance Sheet, therefore we should have:—

	Sundry Debtors . . .	£2,500
	less Bad Debts Reserve .	125
		——£2,375,
not		
	Sundry Debtors . . .	£2,560
	less Bad Debts Reserve .	128
		——£2,432.

When the Bad Debts are written off, the Sundry Debtors will be reduced to £2,500, and this point seems to be quite unnoticed by the majority of students, who are greatly surprised when the Balance Sheet totals do not agree.

Depreciation.—Sometimes Depreciation figures in the Trial Balance, a corresponding amount having already been written off some asset or assets. Students who have been accustomed to show the assets in the Balance Sheet, *less* depreciation, do so in this particular instance, and of course find subsequently that the Balance Sheet totals do not correspond. The asset, in this case, must be shown in the Balance Sheet at the same figure as it stands at in the Trial Balance; or, if it is desired to show the asset *less* depreciation, the depreciation must be added back again to the asset and then deducted. For example, take the following Trial Balance (purposely condensed):—

TRIAL BALANCE.	*Dr.*			*Cr.*		
Sundry debit balances	7,206	–	–			
Plant and Machinery	1,350	–	–			
Depreciation of Plant and Machinery .	150	–	–			
Sundry credit balances . . .				8,706	–	–
	8,706	–	–	8,706	–	–

The Depreciation of Plant would be transferred to the Profit and Loss Account, and the Plant and Machinery would be shown in the Balance Sheet thus:—

	Plant and Machinery	£1,350,
or		
	Plant and Machinery . . .	£1,500
	less Depreciation . .	150
		——£1,350,
but not		
	Plant and Machinery . . .	£1,350
	less Depreciation . .	150
		——£1,200,

which is the mistake many students make. As the Depreciation appears in the Trial Balance, it must have been written off the Plant and Machinery, for there could not be one-sided entries in the Ledger. The asset is, therefore, at its net figure and must not be further reduced.

Loose Tools.—In engineering works, iron foundries, and similar concerns it is the practice to make their own loose tools. At balancing time stock is taken of these tools in the same way as stock of goods. The student will thus find in such exercises two stocks of Loose Tools, a Stock at start and a Stock at finish. These should be treated in the same way as Stock-in-trade; the opening stock should be debited to Trading Account, and the closing stock should be credited to Trading Account and shown on the assets side of the Balance Sheet. The reason for this is that the materials for making the tools, and the cost of making them, *i.e.*, the wages of workmen, have been debited to Trading Account, and therefore any increase or decrease in the stock of tools should properly be dealt with in the same account. Alternatively, the difference between the two stocks of Loose Tools may be shown as Depreciation or Appreciation in the Profit and Loss Account.

ADJUSTMENTS AND THE BALANCE SHEET

Outstanding Liabilities.—Numbers of students are constantly getting their Balance Sheet wrong on account of the adjustments. They must remember that items in the Trial Balance are dealt with only *once*, either in the Profit and Loss Account *or* in the Balance Sheet; but that items outside the Trial Balance, *i.e.*, the adjustments to be made, are dealt with *twice*, both in the Profit and Loss Account *and* also in the Balance Sheet, in order to complete the double entry. For instance, Rent as an item in the Trial Balance would be debited to Profit and Loss and would then be finished with; but Rent as an item outside the Trial Balance, *i.e.*, an adjustment to be provided for, would not only be debited to Profit and Loss Account, but would also be shown as Outstanding Rent on the Balance Sheet. The same item may therefore be treated differently in two different exercises. It does not, however, depend on the item itself, but on the *position* of the item, *i.e.*, whether it is in the Trial Balance or List of Balances, or whether it is an adjustment outside it. Suppose we were told in an exercise to make a Journal entry for some Rent due, we should say:—

Rent	...	*Dr.*
To Outstanding Rent		*Cr.*

The Rent would be posted to the Rent Account, the total of which would be debited to Profit and Loss, while an Outstanding Account would be opened in the Ledger and would appear on the

liabilities side of the Balance Sheet. And the point is, that the double entry must still be made for all adjustments whether we construct Journal entries for them or not. That is to say, we must debit Profit and Loss with the item and show the latter as Outstanding Rent in the Balance Sheet. Students must remember that charging Rent and other losses against profits does not *pay* them; they remain liabilities until they are paid in cash.

Apportionments.—Likewise with the apportionments, *i.e.*, the amounts prepaid, or received in advance, and carried forward to the next year, these must also be shown on the Balance Sheet. When *losses* are carried forward, as, for instance, unexpired insurance, rates, etc., they are put on the assets side of the Balance Sheet; and when profits are carried forward, as, for instance, unexpired apprentice premium, they are put on the *liabilities* side of the Balance Sheet. We do not make actual assets or liabilities of them. Losses carried forward come on the assets side simply because losses and assets are both *debit* balances. And profits carried over come on the liabilities side simply because profits and liabilities are both *credit* balances.

Common Errors.—As in the intermediate stage the students' great difficulty is to make the Trial Balance agree, so also in the advanced stage their great difficulty is to make the Balance Sheet agree. The outstanding liabilities are frequently omitted; and the apportionments are either omitted, or else placed on their wrong sides. The wrong Stock is often entered in the Balance Sheet. It should *not* be the Stock in the Trial Balance, but the Stock at finish. Sometimes the disagreement of the Balance Sheet totals is caused by the omission of the Stock-in-trade altogether. In other cases the Balance Sheet will not agree because the wrong Bad Debts Reserve has been deducted, namely, the old Reserve instead of the new one, *i.e.*, the one to be made; or else merely the amount debited or credited to Profit and Loss in order to adjust the two reserves has been shown as the actual Reserve itself. For example:—

Dr. PROFIT AND LOSS ACCOUNT

To Bad Debts Reserve 5 %	£5,000	£250
less Old Reserve		120
		£130,

and then in Balance Sheet—

Sundry Debtors	£5,000	
less Bad Debts Reserve	130	
		£4,870,

instead of

Sundry Debtors	£5,000	
less Bad Debts Reserve	250	
		£4,750,

which is the correct amount.

QUESTIONS ON CHAPTER II

A

1. Explain the meaning of the terms "profit" and "loss," distinguishing between "gross" and "net" in each case.

2. What is the difference between "turnover" and "output"? Explain what is meant by "percentage of gross and net profit on turnover." Why is the percentage not calculated on cost?

3. What is a Trading Account, and of what items is it usually composed?

4. Distinguish between a Trading and (*a*) a Profit and Loss Account, (*b*) a Cost Account, (*c*) a Manufacturing Account.

5. State what the following items in a Trading Account represent:—(1) Stock, (2) Work-in-Progress, (3) Purchases, (4) Sales.

6. What is meant by a "Materials Consumed Account," and how is the amount arrived at? Show, by means of *pro formâ* examples, the difference in a Trading Account with and without this item.

7. Explain the meaning of the following items:—(1) Dock Charges, (2) Duty, (3) Freight, (4) Carriage, (5) Cartage. When are these items charged to Trading Account, and when to Profit and Loss Account?

8. Explain the meaning of "productive wages." Why should they be charged to Trading Account? Illustrate your answer by means of examples.

9. How are Wages distinguished from Salaries?

10. Explain the following:—Manufacturing Charges, Royalties, Motive Power, Fuel, Consumable Stores. Should these be charged to Trading Account or to Profit and Loss Account? Give reasons for your answer.

11. What considerations enter into the question as to whether Packages and Packing Material should be charged to Trading Account or to Profit and Loss Account? How is Rent of Factory dealt with?

B

1. What is a Profit and Loss Account, and how does it differ from a Trading Account?

2. Explain the meaning of the following items when they appear in a Profit and Loss Account:—Dock Charges, Duty, Freight, Carriage, Cartage.

3. Why do Rent, Rates and Taxes, and Ground Rent appear in the Profit and Loss Account? How should Ground Rent be treated when it has been paid *less tax*? How would you deal with Rent received from sub-lettings?

4. What are Salaries, and how do they differ from Wages? To what account would you charge the item "Salaries and Wages," and why?

5. What is meant by Discount? Explain the terms "Discounts Allowed," "Discounts Received," "Discounts on Sales," "Discounts on Purchases." What different methods of treatment are in vogue with respect to the last two items?

6. What do the following items denote:—Interest, Commission, Bank Charges? Into what two accounts are each of the former usually divided, and why?

7. Explain the meaning of the following:—Insurance, Advertising, Repairs, Travelling Expenses, and Horsekeep, and why they are charged to Profit and Loss.

8. What is meant by Office Expenses and Trade Expenses? What variation of treatment exists with respect to the latter item?

9. What are Bad Debts, and how should they be treated? How would you deal with any Bad Debts written off and subsequently recovered?

C

1. Explain the meaning of the phrase, "Adjustments at balancing time." Give examples.

2. What outstanding liabilities have usually to be provided for at balancing time? What accruing income must also be brought to account?

3. What apportionments are usually necessary at the time of closing the books, and why? How is the Balance Sheet affected by such apportionments?

4. Explain what adjustments come under the following headings:—
   (*a*) Reserves for Expected Losses.
   (*b*) Reserves for Expected Gains.

5. Why must Interest on Capital and Depreciation of Assets be charged against profits?

6. What adjustments are rendered necessary at balancing time, (*a*) through unused stocks of stationery, advertising material, etc., on hand, (*b*) through national health and unemployment insurance?

7. What are closing entries? How are the following accounts closed:— (*a*) Personal accounts, (*b*) Real accounts, (*c*) Nominal accounts?

8. Explain the term "Balance Sheet." What information should it afford us? How does it differ from a Trial Balance?

9. What controversy is there respecting (*a*) the form of the English Balance Sheet, (*b*) the headings "Dr." and "Cr.," and the words "To" and "By"?

10. What two methods are there of marshalling the assets and liabilities on a Balance Sheet? Illustrate your answer by means of *pro formâ* examples. What variations are sometimes met with?

EXERCISE II

1. Messrs. Brown & Phillips are equal partners in a business trading under the style of The Pimlico Cycle Co. On the 31st December their book-keeper extracted the following balances from the books:—

Cash at Bank, £3,990; Plant and Machinery, £6,880; Stock of Machines, 1st Jan., £7,858; Materials on hand, 1st Jan., £2,730; Sales during the year, £188,680; Sundry Debtors, £6,556; Agents' Commission, £4,890 P. Brown, Capital Account, £5,358; R. Phillips, Capital Account, £4,900; Workmen's Wages, £26,798; Business Premises, £2,500; Bills Payable, £3,840; Cash Creditor, £4,000; Materials Purchased, £139,920; Sundry Creditors, £4,462; General Expenses, £720; Travellers' Salaries, £3,520; P. Brown, Drawing Account, £1,120; R. Phillips, Drawing Account, £900 Bad Debts written off, £958; Rents, Rates, and Taxes, £1,900.

The following adjustments are necessary:—

5 % Depreciation off Plant and Machinery; one year's Interest due to Cash Creditor at 5 % per annum; Bad Debts estimated at £320; Commission due to Agents, £700; Interest on Capital at 5 % per annum

The Stocks on hand at 31st December were:—

Materials, £1,860; Machines, £6,250.

Prepare Trial Balance, Trading and Profit and Loss Account, and Balance Sheet as at 31st Dec.

2. Messrs. Wolfe, Harvey & Co. are in partnership, sharing profits equally. On the 30th June the following balances stood in their books:—

Lease of Premises (15 years to run), £3,000; Stock, 1st July, £9,262 Bills Payable, £6,902; Sundry Creditors, £11,224; Sales, £51,558; Discounts Received, £766; Purchases, £44,662; Bad Debts, £152; Advertising, £2,160; R. Wolfe, Capital Account, £23,120; T. Harvey, Capital Account, £19,570; Cash at Bank, £1,886; Rent, Rates, and Taxes, £1,396; Discounts Allowed, £1,082; Bills Receivable, £940; Salaries, £1,700; R. Wolfe, Drawing Account, £1,400; T. Harvey, Drawing Account, £1,300; Trade Expenses, £1,098; Cash in hand, £100; Plant and Machinery,

£10,656; Bad Debts Reserve, 1st July, £420; Wages (manufacturing), £6,838; Sundry Debtors, £25,928.

The following adjustments are necessary:—

Interest on Capital at 5 % per annum; Bad Debts Reserve, £500 Depreciation of Plant and Machinery at 5 %; Advertising paid in advance, £100; Rent, Rates, and Taxes owing, £290; Stock, 30th June, £19,514.

Prepare Trading and Profit and Loss Account for the year ending 30th June, and a Balance Sheet as at that date.

3. Thomas Cook & Henry Darwin are in partnership in a manufacturing business, and share profits two-thirds and one-third respectively. On the 31st December the following Balances were extracted from the partnership books:—

Plant, Machinery, etc., £9,320; Sundry Debtors, £13,664; Coal and Coke, £1,740; Salaries, £4,360; Bad Debts, £862; Stock, 1st Jan., £7,698; Cash Creditor, £4,000; Premises, £4,000; Thomas Cook, Capital Account, £16,320; Henry Darwin, Capital Account, £8,540; Sundry Creditors, £6,698; Sales, £50,300; Cash at Bank, £2,760; Bills Receivable, £1,140; Cash in hand, £50; Repairs and Renewals, £500; Discounts Allowed, £450; Manufacturing Wages, £11,556; Bills Payable, £3,560; General Expenses, £1,252; Thomas Cook, Drawing Account, £1,600; Henry Darwin, Drawing Account, £800; Rents Received, £340; Rent, Rates, and Taxes, £3,000; Advertising, £180; Purchases, £24,826.

The following adjustments are necessary:—

Interest on Partners' Capitals at 5 % per annum; one year's Interest at 5 % per annum due to Cash Creditor; Reserve for Bad Debts, £340; Depreciation of Plant and Machinery at 5 %; Rent, Rates, and Taxes due, £500; Advertising due, £100.

Stock at 31st December was valued at £12,280.

Prepare Trading and Profit and Loss Account for the year ending 31st December, and a Balance Sheet as at that date.

4. Messrs. Rice & Baxter entered into partnership on the 1st January with a Capital of £30,000, £20,000 of which was contributed by P. Rice and £10,000 by F. Baxter. It was agreed that profits should be shared in proportion to capital introduced, and the Drawings of the partners should be: Rice, £400; and Baxter, £200 per quarter on account of accruing profit. Should either partner draw more than the agreed amount, he was to be debited with not less than one quarter's Interest on the sum drawn in excess. Each partner was to be entitled to Interest on his Capital at 5 % per annum. A Bad Debts Reserve of 2½ % of the Sundry Debtors was to be created.

The Stock at 31st December was valued at £12,857 0s. 10d.

From the above particulars and the following Balances, prepare Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as at that date:—

P. Rice, Capital A/c	£20,000	Trade Charges	£ 460
F. Baxter „ „	10,000	Sundry Debtors	17,078
Cash at Bank	2,418	Returns Outwards	1,756
„ on Deposit	1,000	P. Rice, Drawing A/c	1,600
Purchases	35,640	F. Baxter, „ „	1,000
Sundry Creditors	3,920	Rent owing *Cr.*	160
Rent, Rates, and Taxes	700	Interest and Discount *Dr.*	270
Bills Payable	2,690	Salaries	1,200
Furniture and Fixtures	500	Returns Inwards	2,460
Sales	29,360	Bills Receivable	3,560

5. The following Balances appear in S. Teetgen's books at 30th September:—

Stock, 1st Oct.	£8,000	S. Teetgen, Capital A/c	£15,000
Bills Payable	4,520	,, Drawing A/c	500
Sales.	21,300	Plant and Machinery	4,500
Discount *Dr.*	150	Wages (manufacturing)	4,760
Gas and Fuel	600	Depreciation	500
Sundry Creditors	5,672	Carriage and Freight	900
Purchases	9,580	Travelling Expenses	520
Cash in hand	100	Sundry Debtors	7,360
Rent, Rates, and Taxes	740	Trade Expenses	840
Premises	8,000	Bank Overdraft	558

Make a Bad Debts Reserve of £200; a Discount Reserve on Debtors of 5 % and on Creditors of 2½ %. The Stock at 30th September was valued at £6,800. You are required to prepare Trading and Profit and Loss Account for the year ending 30th September, and a Balance Sheet as at that date.

6. On the 30th June, Messrs. Lewis & Co. extracted the following Balances from their books:—

P. Lewis, Capital A/c	£7,012	Cash in hand	£20
T. Smithers, Capital A/c	5,010	Petty Expenses	312
Wages of Workmen	5,340	Bad Debts.	119
Gas and Electric Light	80	,, ,, added to Reserve	100
Commission and Discount	420	Salaries	1,000
Debtors for Rent	50	Purchases	28,381
Bills Receivable	781	Sundry Creditors	6,245
Bills Payable	1,970	P. Lewis, Drawing A/c	1,000
Stock, 1st July	9,645	T. Smithers, ,, ,,	400
Freight and Carriage	158	Sundry Debtors	9,036
Sales.	37,500	Rent, Rates, and Taxes	1,500
Bad Debts Reserve	230	Travelling Expenses	364
Bank Overdraft	739		

Stock on hand 30th June was valued at £11,774 18s. 4d. Provide for Salary £300 to be credited to T. Smithers. Profits are to be divided—seven-twelfths to Lewis and five-twelfths to Smithers. Prepare Trading and Profit and Loss Account and Balance Sheet as at 30th June, after allowing Interest on Capital at 5 % per annum.

7. From the following Balances and the undermentioned particulars, prepare Messrs. Rocklyn & Co.'s Trading and Profit and Loss Account for the year ended 30th September, and a Balance Sheet as on that date:—

Purchases	£18,682	R. Rocklyn, Capital A/c	£10,840
Bad Debts.	196	,, Drawing ,,	800
Sales.	49,240	P. Farmley, Capital A/c	10,306
Repairs and Renewals.	1,140	,, Drawing ,,	700
General Expenses	920	Extension of Works	3,000
Coal and Coke	1,040	Rents Received	300
Sundry Debtors	9,300	Cash in hand	80
Travellers' Salaries and Commission	1,300	Rates and Taxes	760
Discounts Allowed	860	Cash at Bank	3,120
Trade Creditors	3,080	Clerks' Salaries	960
Stock, 1st Oct.	7,960	Wages of Workmen	6,338
Plant and Machinery	7,000	Discounts Received	390
		Premises	10,000

Make a Bad Debts Reserve of £460 a Discount Reserve on Debtors of 2½ %; credit Interest on Capital at 5 % per annum; depreciate Plant and Machinery 5 %. Stock on hand, 30th September, valued at £3,372. Profits and losses to be shared equally.

8. The following Balances appear in the books of Norman Lockell on 31st December:—

Freehold Premises, £6,000; Wages of Workmen, £11,782; Bills Payable, £5,140; Consignments Outward at cost and still unsold, £1,800; Discounts *Dr.* balance, £572; Bills Receivable, £1,558; Loan from Bankers, £4,000; Norman Lockell, Capital Account, £25,300; Drawing Account, £2,400; Purchases, £25,360; Advances on Consignments, £1,000; Fire Insurance (£20 prepaid), £90; Stock, 1st Jan., £9,570; Rents Received, £200; Salaries, £2,920; Cash in hand, £300; Machinery and Plant, £7,640; Sales (including consignments), £44,970; General Expenses, £940; Returns Inwards, £3,190; Sundry Debtors, £13,208; Sundry Creditors, £7,720; Rent, Rates, and Taxes, £1,000.

Make the following adjustments:—

Bad Debts Reserve, 5 % Debtors; Interest on Capital, 5 % per annum; Interest due to Bank, £100; Depreciation of Premises, £100; Depreciation of Plant and Machinery, 10 % per annum.

The Stock at 31st December was valued at £16,174.

Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., and a Balance Sheet as on that date.

9. Robert Anglesey set up business on the 1st April under the style of the Anglesey Engineering Co., with a Capital of £10,000. On the 31st March the following Balances appeared in his books:—

Trade Creditors	£4,341	Orders executed	£25,360
Cash at Bank	860	Plant and Machinery	5,362
Manufacturing Wages	4,683	Bills Payable	1,520
Purchases	10,944	Robert Anglesey—	
Bills Receivable	361	Capital A/c	10,000
General Expenses	560	Drawing A/c	900
Discounts Received	130	Goods A/c	25
Mrs. Anglesey (Loan)	1,000	Trade Debtors	13,176
Discounts Allowed	260	Salaries and Commission	1,940
Rent, Rates, and Taxes	1,380	Lease of Premises	1,900

Make the following adjustments:—

Interest on Capital at 5 % per annum; one year's Interest due to Mrs. Anglesey at 5 % per annum; Depreciation of Plant and Machinery at 10 % per annum; Bad Debts estimated at £275.

The Stock on 31st March was valued at £3,394, and the Orders on hand at cost £430.

Prepare Trading and Profit and Loss Account, and Balance Sheet as at 31st March.

10. Messrs. Perry & Ruston are in partnership sharing profits three-fifths and two-fifths respectively. From the following Balances, and the undermentioned particulars, you are required to make out a Trading and Profit and Loss Account for the year ended 30th April, and a Balance Sheet as on that date.

Trade Creditors	£3,578	Discounts Received	£ 580
Bills Payable	1,870	Bills Receivable	536
Law Charges	42	Purchases	11,720
General Expenses	758	A. Perry, Capital A/c	9,280
Cash at Bank	1,898	,, Drawing A/c	800
B. Ruston, Capital A/c	7,520	Stock, 1st May	6,390
,, Drawing A/c	600	Trade Debtors	6,322
Premises	4,000	Carriage	358
Cash Creditor	4,000	Returns Inwards	2,860
Returns Outwards	1,620	Salaries	1,570
Bad Debts Reserve, 1st May	220	Sales	21,360
Cash in hand	40	Bad Debts	260
Discounts Allowed	860	Rent, Rates, and Taxes	1,120
Wages (manufacturing)	3,994	Plant and Machinery	5,900

The following adjustments are necessary :—

Bad Debts estimated at £291 ; Discount Reserve on Debtors, 3¾ % ; on Creditors, 2½ % ; Interest on Capital, 5 % per annum ; one year's Interest due to Cash Creditor, £160 ; Depreciation of Plant and Machinery, 10 %. Stock on hand at 30th April was £9,384.

11. Messrs. Kingsley & Larke are in partnership, sharing profits and losses two-thirds and one-third respectively. From the following Balances and the undermentioned particulars, prepare Trading and Profit and Loss Account for the year ended 31st July, and a Balance Sheet as that date.

Freehold Premises	£4,000	Cash at Bank	£3,940
Discounts Allowed	950	Stock, 1st Aug.	10,764
Trade Creditors	6,994	Plant and Machinery	14,690
General Charges	1,370	Bad Debts	920
Wages (manufacturing)	9,294	Patents	3,000
Bills Payable	2,686	Cash in hand	20
Rent, Rates, and Taxes	3,500	Trade Debtors	11,760
B. Kingsley, Capital A/c	21,360	R. Larke, Capital A/c	10,640
,, Drawing A/c	1,940	,, Drawing A/c	900
Bad Debts Reserve, 1st Aug.	1,160	Salaries	2,520
Discounts Received	520	Insurance	190
Sales	47,560	Purchases	21,162

The following adjustments are necessary :—

Bad Debts Reserve, £600 ; Interest on Capital, 5 % per annum ; Depreciation : Patents, 10 % ; Plant and Machinery, 10 % ; Business Premises, £200 ; Frank Higgins, the Works manager, is entitled to 5 % of the net profits.

The Stock on hand at 31st July was valued at £9,550.

12. Alfred Ramsden & Philip Brookes trade under the style of Ramsden, Brookes & Co. The following Balances were extracted from their books on the 30th June :—

Trade Creditors	£8,192	Salaries	£ 720
Freehold Premises	5,000	Stock, 1st July	5,900
Discounts (*Dr.* balance)	230	P. Brookes, Capital A/c	6,860
A. Ramsden, Capital A/c	12,300	,, Drawing A/c	600
,, Drawing A/c	1,200	Trade Debtors	20,176
Rent, Rates, and Taxes	860	Bills Payable	3,800
Repairs	146	Bad Debts Reserve, 1st July	600
Bills Receivable	620	Sales	29,384
Purchases	17,182	General Expenses	852
Cash at Bank	1,120	Cash in hand	30
Wages of Workmen	2,940	Plant and Machinery	3,560

The following adjustments are necessary :—

Bad Debts Reserve, 5 % Debtors ; Interest on Capital at 5 % per annum ; Depreciation of Plant, 10 % per annum.

Stock on hand at 30th June was valued at £2,498. Profits are divisible equally.

Make the necessary closing entries and prepare Trading and Profit and Loss Accounts, and Balance Sheet as at 30th June.

13. Owing to two amounts being placed on the wrong sides of the following Trial Balance, the casts do not agree. (1) Correct the errors which are obvious, (2) prepare the Trading Account, (3) prepare the Profit and Loss Account, and Balance Sheet, as on 31st December.

Stock, 1st Jan.	£1,072	19	4	Sales	£10,462	2	1
Purchases	4,852	17	5	Discounts	141	14	11
Wages	1,471	16	8	Loan A/c	1,500	–	–
Rent, Rates, and Taxes	360	7	3	Sundry Debtors	4,176	15	4
Salaries	521	6	6	Smith—Capital	1,570	–	–
General Expenses	86	13	3	Jones ,,	1,000	–	–
Commission on Sales	381	11	4	Reserve for Doubtful Debts	280	–	–
Discounts	53	4	–				
Plant and Machinery	1,080	–	–				
Sundry Creditors	2,036	10	1				
Horses and Vans	742	18	3				
Cash at Bank	467	17	3				
Smith—Drawings	650	–	–				
Jones ,,	500	–	–				
Returns on Sales	201	–	6				
Cost of Lease, 1st Jan.	371	–	–				
	£14,850	1	10		£19,130	12	4

The stock on the 31st December was £983 10s. 10d. Write off 10 % depreciation on Plant and Machinery, 15 % depreciation on Horses and Vans, and transfer £69 12s. 1d. to the debit of Bad Debt Reserve Account and write up to the credit of Bad Debt Reserve Account the sum of £70.

The Lease of the premises expires in seven years' time. Write off an amount for the current year, so that by writing off a like amount annually the cost of the Lease will stand in the books of the firm at nil by the time the Lease expires.

Allow interest on the following Accounts :—

5 % for the year on Loan Account.

5 % per annum on Smith's capital balance as appearing in the Trial Balance, and the same for Jones, and transfer interest to the respective accounts.

Transfer five-eighths of the net profit to Smith's Capital Account and three-eighths to Jones' Capital Account, and debit each Capital Account with the amount drawn, placing the net balances on the Balance Sheet.

—(*Civil Service, Second Division Clerks.*)

14. The following are the Ledger Balances of A, B, C, & Co. as on 31st December :—

Sundry Debtors	£6,000	Sales	£25,000
General Trade Expenses	1,200	Sundry Creditors	1,000
Factory Rent	250	Interest received	120
Manufacturing Wages	2,000	Purchase Returns	200
Purchases	10,000	Discounts received	180
Fixtures and Fittings	500	Reserve for Bad Debts	200
Carriage and Freight on Raw Material	500	A. Capital A/c. Cr.	10,000
Sales Returns	300	B. Capital A/c. Cr.	10,000
Horses, Harness, and Vehicles	2,000	Plant and Machinery	6,000
Advance on Mortgage. Dr.	2,000	Freehold Offices	2,000
Travelling Expenses	600	Balance at Bank	2,300
Office Salaries	2,200	Cash Balance	10
A. Drawings	1,000	Stock, 1st Jan.	5,000
B. ,,	1,000	C. Capital A/c. Dr.	1,000
C. ,,	500	Discounts Allowed	220
		Rates, Taxes, and Insurance	120

Prepare :—

(1) Trading Account, showing gross profit for the year.

(2) Profit and Loss Account, showing net profit available for division among the partners.

(3) Balance Sheet as on December 31st, 19—

Stock on hand on December 31st, 19—, amounted to £7,500. According to the Partnership Deed 5 % Interest on Partner's Capital is to be credited or charged as the case may be, and the profits are to be divided as to A. $\frac{3}{8}$ths, B. $\frac{3}{8}$ths, C. $\frac{1}{4}$th.

Write off 5 % from Plant and Machinery.

Write off 10 % from Horses, Harness, Vehicles, and Fixtures and Fittings. Increase the Reserve for Bad Debts by £400.—(*Civil Service, Assistant Clerks.*)

15. Robert Poole & Frederick Winchley entered in partnership on 1st Oct. under the style of Poole & Co. The following Balances (except one) were obtained from their books at 30th September after the first year's trading :—

Sundry Debtors, £7,360 ; R. Poole, Drawing Account, £800 ; F. Winchley, Drawing Account, £800 ; Stock, 30th September, £4,900 ; Salaries, £940 ; Carriage, £450 ; Discounts Received, £720 ; Purchases, £26,720 ; Commission, £660 ; Plant and Machinery, £9,252 (after charging Depreciation, £1,026) ; Freehold Premises, £3,000 ; Trade Creditors (including Bills Payable, £1,500), £7,704 ; Cash at Bank, £1,180 ; Discounts Allowed, £1,064 ; Rent, Rates, and Taxes, £1,660 ; Wages of Workmen, £5,480 ; General Expenses, £872 ; Travelling Expenses, £520 ; Goods sold, £35,360. Draw up a Trial Balance (bringing into account the Capital, which the partners contributed equally), and prepare Trading and Profit and Loss Account, and Balance Sheet as at 30th September, after allowing Interest on Capital at 5 % per annum.

16. From the following Ledger Balances prepare Trading Account, Profit and Loss Account, and Balance Sheet of Messrs. H. Oakley and W. Denham, Harness Manufacturers, as on 31st December, sharing profits and losses equally. Before dividing the profits, allow Interest on Partners' Capital at 5 % per annum ; depreciate Machinery and Plant 7½ %, and Fixtures and Fittings 6 % ; provide for Bad and Doubtful Debts 5 %, and for a half-year's interest on the Mortgage at 5 % per annum to 31st December ; carry 7½ % of the net profit (if any) to the Reserve Fund. Stock 31st December, £14,725 2s. 6d.

H. Oakley, Capital A/c (1st Jan.) .	£10,000	–	–
W. Denham, Capital A/c (1st Jan.) .	9,000	–	–
Freehold Premises .	13,100	–	–
Bills Payable A/c .	2,402	8	2
Fixtures and Fittings A/c . . .	3,600	–	–
Wages A/c . .	7,930	1	4
Mortgages on Premises A/c . . Cr.	4,500	–	–
Sundry Creditors .	13,802	18	4
Reserve Fund (for contingencies) .	1,050	–	–
Sales A/c . .	45,230	2	10
Machinery and Plant A/c . . .	6,000	–	–
Cash Account . .	472	14	7
Purchases A/c . .	31,038	10	7
Salaries A/c . .	550	–	–
Stock A/c (1st Jan.)	£10,910	5	5
Rates and Taxes A/c	251	9	11
Banker's Account Cr.	2,437	–	–
Office Expenses A/c .	104	5	3
Carriage A/c . .	1,066	2	9
Insurance A/c . .	191	11	4
Interests and Discounts A/c . Cr.	43	12	1
Sundry Debtors .	8,510	–	–
Interest on Mortgage A/c . . .	112	10	–
General Trade Expenses A/c . .	1,040	17	2
Repairs A/c . .	337	13	1
H. Oakley's Drawing A/c (including interest) . . .	1,767	10	–
W. Denham's Drawing A/c (including interest) . . .	1,482	10	–

—(*Union of Educational Institutes.*)

17. Wm. Smith and Joseph Thompson trade in partnership as Metal Merchants under the style of Smith, Thompson & Co., William Smith's capital being £15,000, and Joseph Thompson's £12,000.

The Ledger shows the following Balances :—

Office Furniture and Fittings . .	£473	8	2
Rent . . .	200	–	–
Sales of Copper .	37,445	7	1
,, Tin . .	9,476	3	8
,, Iron . .	87,753	11	6
,, Pig Iron .	76,942	8	–
Discounting Bills .	829	7	3
Bills Receivable .	9,814	15	–
Discounts Allowed less Discounts received	4,423	9	11
Cash in hand . .	23	2	11
Sundry Debtors .	7,618	4	10
Sundry Creditors .	6,028	7	10
Salaries of Office Staff	316	4	–
Warehouse Wages .	226	–	–
Bank Interest and Commission . .	332	12	4
Purchases of Copper.	£40,170	12	–
,, Tin .	8,426	18	9
,, Iron .	86,983	7	2
,, Pig Iron	75,536	14	1
Stocks on hand at 1st Jan.—			
Copper . . .	12,008	–	3
Tin . .	875	11	4
Iron . . .	3,026	14	–
Office and Warehouse Expenses . .	574	19	9
Carriage . . .	1,463	13	7
Wm. Smith, Drawings	618	4	2
Joseph Thompson, Drawings . .	429	8	6
Midland Bank . Cr.	2,941	7	5
Bills Payable . .	6,784	2	6

The Stocks on hand at 31st December were : —

Copper	£22,111	14	2
Tin	617	18	10
Iron	6,513	4	1

From the foregoing make out Profit and Loss Account and Balance Sheet, charging 5 % Interest on the Partners' Capital, and crediting Partners with £500 each, Salary.—(*Union of Educational Institutes.*)

18. H. Shepherd and G. Elkington entered into co-partnership as Builders and Contractors at Northampton on January 1st. Elkington's capital was £1,000, Shepherd's was £4,000. Profits or losses were to be shared equally, 5 % was to be credited to each Partner in respect of his capital, and 5 % was

to be charged on their respective drawings. Elkington was to be credited with £25 each quarter as salary for management. The following is a copy of the Ledger Balances of their books on December 31st, but no interest has been charged either upon the capital or upon drawings, nor had Elkington been credited with his salary.

The Stock was taken and amounted to £3,750. The drawings of the partners had been as follows: Shepherd, February 1st, £50; April 1st, £100; June 1st, £50; August 1st, £50; October 1st, £100; December 1st, £50; Elkington, February 1st, £25; March 1st, £37 10s.; May 1st, £62 10s.; June 1st, £50; August 1st, £25; September 1st, £37 10s.; November 1st, £62 10s.; December 1st, £50.

Sales		£9,756	10	7	
Purchases		3,857	6	6	
Cash		365	2	11	
Bills Payable		421	3	4	
Creditors		1,062	7	1	
Rent		525	7	6	
Bank	Cr.	664	19	9	
Taxes and Insurance		224	12	6	
General Charges		108	2	2	
Buildings		2,500	–	–	
Shepherd's Capital		4,000	–	–	
Elkington's Capital		£1,000	–	–	

Interest and Discount Dr.	£250	3	7
Salaries	457	10	–
Wages	1,304	2	6
Carriage and Freight.	255	4	7
Repairs and Depreciation	212	5	7
Plant and Tools	1,437	14	5
Shepherd's Drawings.	400	–	–
Elkington's Drawings	350	–	–
Debtors	4,657	8	6

Prepare a Trading Account, Profit and Loss Account for the year, and Balance Sheet, giving effect to the respective partnership terms as to Interest on Capital and Drawings, Partners' Salary, and division of Profits and Losses. —(*Union of Educational Institutes.*)

19. John Green, Henry Richards, and Reginald Everitt trade together under the title of Green, Richards & Co.; each partner is entitled to a salary of £500 per annum.

John Green's capital is £8,000; Henry Richards's, £7,000; and R. Everitt's £5,000.

At the end of the year the balances were as follows:—

Debtors		£5,162	11	1	
Creditors		4,726	15	2	
Bills Receivable		365	10	–	
Bills Payable		918	19	11	
Stock		7,017	13	8	
Purchases		62,169	7	3	
Wages		3,013	4	4	
Salaries of Staff		618	13	8	
Office Expenses		493	8	5	
Property—Works		6,500	–	–	
Machinery		10,000	–	–	
Cash		16	14	11	
Bank		1,029	17	7	

Discount Dr.	£394	11	3
Interest on Loans Dr.	12	10	–
Insurance	63	4	–
Consignments Dr.	198	10	–
Bad Debts	17	2	6
Sundry Trade Charges	2,838	18	9
Reserve for Bad Debts	100	–	–
Sales	73,483	10	10
Loans at 5%, borrowed 30th June Cr.	500	–	–
Reserve for Discounts Cr.	182	11	6

The Stock at December 31st amounted to £8,316 19s. 10d. Write 7½ % Depreciation off Machinery and 2½ % off Works. Make out Profit and Loss Account and Balance Sheet, crediting each partner with 5 % interest on his capital.—(*Lancashire and Cheshire Union.*)

20. Prepare Final Accounts of John Combine, steel merchant, on Dec. 31st. Stock, at Dec. 31st, valued at £3,500. Write off £400 Bad Debts,

and maintain a Reserve of 5 % on the remaining debtors' balances to allow for doubtful debts. Depreciate Plant 10 %. Allow interest on Capital at 5 % per annum. Combine introduced an extra £500 capital on Dec. 1st.

Stock	£9,600	Returns In	£100
Wages	3,200	Sundry Debtors	3,500
Railway Charges, etc.	500	Office Expenses	500
Purchases	12,000	Income Tax	50
Interest on Overdraft	20	Drawings as against Profits	500
Bills Receivable	600	J. Combine, Capital	5,000
Rents, Rates, etc.	200	Bills Payable	500
Plant and Machinery.	2,000	The Consolidated Bank Cr.	400
Travelling Expenses	500	Sales	25,000
Repairs to Plant	160	Reserve for Bad Debts	500
Cash	200	Discount on Purchases	400
Discount on Sales	500	Sundry Creditors	2,330

—(*National Union of Teachers.*)

21. The books of Black & White, who are equal partners, are balanced yearly as on December 31st. Before profits are ascertained and divided, 5 % interest is allowed upon Partners' Capital. Depreciation at the rate of 5 % is written off the Plant Account, and a provision of 5 % is made for Bad and Doubtful Debts. One year's interest, at the rate of 4½ %, is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on December 31st, was valued at £3,225.

The following are the final Balances as on December 31st :—

Purchases	£16,450	Premium on Lease A/c (6 years unexpired as on 1st Jan.)	£2,400
Manufacturing Wages	2,150	Sundry Creditors	15,345
Sales	24,800	Loan on Mortgage	5,000
Black's Capital A/c	5,000	Freehold Land and Buildings	8,000
,, Drawings A/c (including Interest)	550	Plant A/c	4,000
White's Capital A/c	2,000	Reserve for Bad and Doubtful Debts (as on 1st Jan.)	600
,, Drawings A/c (including Interest)	350	Sundry Debtors	13,100
Stock (as on 1st Jan.)	3,000	Cash at Bank	1,200
Salaries	820		
Rates and Taxes	325		
Trade Charges	400		

Prepare a Trading and Profit and Loss Account for the year ended December 31st, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

22. On December 31st, Messrs. Arthur Wilson and John Bookman are in partnership as Cigarette Merchants—Profits divided equally. Before the Net Profit can be ascertained the following adjustments must be made, which adjustments may be made through the Profit and Loss Account and the Balance Sheet; separate Ledger Accounts need not be introduced.

1. Interest on Partner's Capital at 5 per cent. from 1st July.
2. Charge to the period the correct proportion of the prepaid Insurance Premium.
3. Write off half of J. Macmillan's Dishonoured Bill.
4. Create a Reserve of 5 per cent. on Sundry Debtors.

A. Wilson (Capital A/c)	£7,250	Commission Cr.	£564
John Bookman (,,)	4,685	Rent, Rates, and Taxes	562
Arthur Wilson (Drawings A/c, including Interest)	640	Stock	8,968
John Bookman (Drawings A/c., including Interest)	410	Salaries and Wages	1,100
Bills Receivable	950	Travelling Expenses	130
Plant and Machinery	2,880	Expenses of Licences	58
Sundry Debtors (including John Macmillan, for dishonoured Bill, £100)	6,200	Insurance, etc. (including Premium of £30 per annum paid to end of March next)	40
Loan A/c. Cr.	2,000	Cash	53
Wages, Manufacturing	4,097	Bank	1,897
Returns In	278	Repairs and Renewals	337
Purchases (including Government Duty)	25,659	Interest and Discount Dr.	587
Sales	35,643	Bad Debts	362
		Sundry Creditors	5,963
		Fixtures and Fittings	897

The Stock on hand at the end of the year is £12,896.

Make out in proper form, Trading, Profit and Loss Account, and Balance Sheet.—(*National Union of Teachers.*)

23. Messrs. Slander and Backbite own a small newspaper. Profits and losses are equally divided. Before the division of Profits, the following adjustments are necessary:—10 % Depreciation is to be written off Plant Account; 20 % off Type Account, and 10 % off Horses and Carts Account; 5 % provision is to be made for Bad and Doubtful Debts; Six Months' Interest at 5 % is due upon the Bank overdraft, and has not yet been passed through the books.

Stock as on December 31st, was valued at £381.

No interest is allowed upon Partners' Capital accounts, Backbite's smaller capital being compensated for by the fact that he gives more time to the business than his partner.

The following were the Ledger Balances of the firm as on December 31st:—

Expenses of Branch Office	£129	Trade and Incidental Expenses	£82
Insurance A/c	34	Cost of Literary Contributions	898
Rates, Taxes, and Gas	50	Commissions Paid	152
Postages A/c	182	Stable Expenses	121
Carriage A/c	264	Ink Purchases A/c	88
Bad Debt Reserve (1st Jan.)	430	Machine and Engine Room Expenses	242
Sales and Subscriptions (Newspaper Department)	4,852	Audit Fee	52
Sales (Jobbing Dept.)	848	Law Charges	124
Advertisements A/c (Receipts)	5,540	Bad Debts A/c	142
Compositors' Wages A/c	2,035	Freehold Printing Works	4,950
Reporters' Salaries	798	Additions to Freehold Premises during the year	150
Paper Purchases A/c.	2,220	Plant and Machinery A/c.	4,400
Office Salaries	748	Type A/c	2,900
S. Slander's Capital A/c	9,864	Stock (1st Jan.)	342
,, Drawings A/c.	1,040	Horses and Carts A/c	194
B. Backbite's Capital A/c	7,540	Sundry Debtors	8,440
,, Drawings A/c	952	Cash in hand	457
Trade Creditors	862	Bank Overdraft	1,500
Advertisements Paid in Advance A/c	750		

Prepare a Profit and Loss Account for the year ended December 31st, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

24. James Thompson took over the business of an Iron Ore proprietor, the lease of the mines having fifteen years to run, on 1st January, and carried on the business for six months.

Make up his Profit and Loss Account and Balance Sheet from the following figures without taking account of interest upon Capital, but providing for the wasting of the Lease, and writing off depreciation, at the rate of 5 % per annum from Machinery and Plant, providing £445 for bad debts, and allowing a discount of 2½ % from the Debtors and Creditors.

James Thomson, Capital	£20,000	Rent, Rates, and Taxes	£2,330
,, ,, Withdrawals	800	Bank Charges	200
Machinery and Plant	3,522	Discounts allowed	850
Ore Sales	36,700	Royalty	5,000
Cash at Bankers	5,709	Lease	16,500
,, on hand	9	Coals	1,260
Allowances & Returns	500	Sundry Debtors	6,300
Salaries	939	Candles and Oil	390
Wages	12,684	Repairs	360
Discounts received	75	Powder	372
Damages for breach of contract	100	Office Furniture	100
Unpaid Wages	286	Carriage and Freight	913
Sundry Creditors	8,000	Stock, 1st January	4,850
Unexpired Insurances	40	Ropes used	53
		Timber used	1,280

The Stock at 30th June amounted to £5,000.

—(*Chartered Accountants.*)

REVISION EXERCISE II.

1. State briefly the general principles of Book-keeping, the Systems in ordinary use, and whether (if any) preference is to be given to any particular system.—(*London Chamber of Commerce.*)

2. The following is a record of transactions in a City House—make the necessary entries, post same to Ledger Accounts, and draw out Trial Balance.

Jan. 2.	Sold Wm. Smith & Co. Goods as per Invoice a/7567. Cash 14 days less 2½ %	£173 10 –
3.	Bought of Hanmer & Co. 2 Bales. —net. Gave two months' acceptance due 5th March	98 15 –
4.	Received Palmer & Co.'s Cheque for account, £35 less 5 % discount	33 5 –

Jan. 4.	Received cash on account from Webster & Co., leaving balance £18 15s.		£30 – –	
5.	Paid London & County Bank		63 5 –	
6.	Sold William Owen Goods as per Invoice a/7568. Cash at 7 days less 1¼ %		75 – –	
9.	Gave Peter Robinson 3 months' acceptance due 12th April, to close his account, less discount £2 3s. 4d.		82 3 4	
12.	Drew Cheques as follows—			
	No. 1760 Wages Account	25 15 –		
	1. Rent, Quarter Year	30 – –		
	2. Rates and Taxes	7 15 –		
	3. Gas Account	3 6 6		
			66 16 6	
15.	Received W. Smith & Co.'s Cheque. Discount £4 6s. 9d.		169 3 3	
16.	Received Webster & Co.'s Cheque		18 15 –	
17.	Received Wm. Owen's Cheque. Discount 18s. 9d.		74 1 3	
18.	Paid London & County Bank		261 19 6	
19.	Advised London & County Bank to honour our Acceptance of Wm. Simpson's Draft due this day for		143 10 –	

—(*London Chamber of Commerce.*)

3. What is a Profit and Loss Account; of what items is it composed, and, assuming you to have prepared one showing a Profit, would such Profit appear as an Asset or a Liability in the Balance Sheet? State your reasons why in either case.—(*London Chamber of Commerce.*)

4. The Stanley Main Coal Company entered into a contract with Messrs. Ricksmith, Pigg & Co., to supply 1,000 tons coal monthly, for a period of 12 months, at 7s. 6d. per ton, with 9d. per ton for waggon hire, and 2s. 6d. per ton carriage, with an allowance by the vendors of 6d. per ton for screening; payment to be made each month by the firm's acceptance at 2 months on receipt of invoice. Make the necessary entries in the subsidiary books of the Coal Company for the first three months' delivery, and post the same to the respective Ledger Accounts.—(*London Chamber of Commerce.*)

5. G. Sykes and R. Simpson trade as the Simplex Manufacturing Co. The following was the Trial Balance of their books for the twelve months ending December 31st. Prepare Trading Account, Profit and Loss Account, and Balance Sheet.

Make the following Provisions and Reserves. Profits or Losses to be shared equally. Interest at 5 % on Partners' Capital Accounts, ignoring Drawings. Transfer £75 from Purchases Account, and £115 from Wages Account to Additions to Plant; Depreciate Plant Account 5 % off balance and 25 % off additions; Depreciate Furniture and Fittings Account 5 %; add to Leasehold Premises Redemption Account 2½% interest on balance and Annual Instalment of £37 10s.; Reserve for Bad and Doubtful Debts 5 % on Debtors.

Before dividing profits, J. Smith, the Works Manager, is to receive a Bonus on the net profits of 2 % up to £2,500, and 1½ % on any profits over that amount.

TRIAL BALANCE.—31st December.

	Dr.			Cr.		
G. Sykes, Capital A/c, 1st Jan.				8,500	–	–
,, Drawings A/c	1,000	–	–			
R. Simpson, Capital A/c, 1st Jan.				6,444	1	–
,, Drawings A/c	750	–	–			
Leasehold premises	3,270	10	6			
,, ,, Redemption A/c				675	–	–
Plant, Machinery, and Tools, 1st Jan.	6,012	11	8			
,, ,, ,, Additions during the year	252	17	4			
Furniture, Fittings, and Fixtures	873	14	6			
Cash Account	35	17	2			
Lloyds Bank, Ltd., Current A/c	1,014	16	7			
Bills Receivable Account	1,173	16	2			
,, Payable Account				4,573	19	10
Sales				38,350	2	6
Purchases	22,753	14	8			
Wages A/c, Producers	7,642	12	9			
,, ,, Non-producers	1,013	10	6			
Discounts received and allowed	1,975	14	6	1,162	8	10
Carriage and Freight	457	16	9			
Sundry Trade Expenses	282	12	8			
Ground Rent, Rates, and Taxes	472	16	9			
Coal, Gas, and Water, Works A/c	522	19	7			
,, ,, ,, Office A/c	89	17	1			
Bank Charges	54	13	9			
Creditors				5,003	16	2
Debtors	9,872	12	6			
Bad Debt Account (Reserve)				152	12	9
Repairs to Plant	63	18	10			
Stock Account, 1st Jan.	5,274	16	10			
	64,862	1	1	64,862	1	1

Stock, 31st Dec., £6,378 12s. 6d.

—(*Union of Educational Institutes.*)

CHAPTER III

BILLS OF EXCHANGE, PROMISSORY NOTES, CHEQUES.

Definition.—By the Bills of Exchange Act, 1882, a bill of exchange is defined as:—

> An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer.

An instrument which does not comply with these conditions, or which orders any act to be done in addition to the payment of money, is *not* a bill of exchange.

An order to pay out of a particular fund is not unconditional within the meaning of this section; but an unqualified order to pay, coupled with (*a*) an indication of a particular fund out of which the drawee is to re-imburse himself or a particular account to be debited with the amount, or (*b*) a statement of the transaction which gives rise to the bill, is unconditional.

Advantages of Bills.—The chief advantages of a bill are:—

(1) It is legal evidence of debt, the creditor being able to sue on the bill itself. It also fixes the date of payment.

(2) It is a negotiable instrument, and can therefore be transferred by the holder in settlement of his own debts, thus obviating the trouble and expense of transmitting coin.

(3) It can be cashed before the due date, in fact whenever desired, by being discounted with a banker or bill broker. This constitutes a very great advantage to business concerns, which are frequently run on credit, and may need ready money.

Kinds of Bills.—There are two kinds of bills, Inland and Foreign. An **Inland Bill** is a bill which is or on the face of it purports to be (*a*) both drawn and payable within the British Islands, or (*b*) drawn within the British Islands upon some person resident therein. For the purposes of the Act, the term British Islands includes the Isle of Man and the Channel Islands. Any other bill is a **Foreign Bill.**

Trade Bill is a bill of exchange drawn in the ordinary course of business and for value received, in contradistinction to an **Accommodation Bill**, *i.e.*, one for which no value has been given.

Form of Bill.—No particular form of words is required by the Act,

and the following may be taken as a fair specimen of the usual business document :—

£250 due 20 April, 19...

3/- Stamp.

Three months after date pay to Mr. M. Bressloff or order the sum of two hundred and fifty pounds value received.

To Mr. M. Goodman.

Accepted payable at the County Bank, Limited Kingsway Branch. M. Goodman.

London, 17 Jan., 19..

J. Rowell.

Parties to a Bill.—There are three parties to a bill:—

(*a*) **Drawer,** the person who is assumed to have written out the bill, *i.e.*, the creditor to whom the money is owing.

(*b*) **Drawee,** the person on whom a bill is drawn, and who, after acceptance, is called the **acceptor.**

(*c*) **Payee,** the person to whom the money is payable. Sometimes the drawer and payee are one and the same person, as when the drawer asks for the money to be paid to himself. In the example given, J. Rowell is the drawer, M. Goodman the drawee, M. Bressloff the payee.

Immediate Parties are those in direct relationship with each other, *e.g.*, drawer and drawee (or acceptor), drawer and payee, indorser and his next indorsee.

Remote Parties are all those not in direct connection with each other, *e.g.*, last indorser and first indorser, an intermediate indorsee and the acceptor, an intermediate indorser and the drawer or payee.

Draft and Acceptance.—Before acceptance the bill is called a draft, which may, therefore, be defined as the unaccepted form of a bill of exchange. But after the drawee has written his signature across the face of it, it is termed an acceptance. It is called a bill at either stage.

Stamp Duty.—The *ad valorem* stamp duty on inland bills of exchange is as follows:—

Where the amount does not exceed			£10	2d.
Exceeding	£10	but not exceeding	£25	3d.
,,	£25	,, ,,	£50	6d.
,,	£50	,, ,,	£75	9d.
,,	£75	,, ,,	£100	1s.

When the amount exceeds £100, 1s. for the first £100, and an additional 1s. for every £100 or fraction of a £100. When bills are

drawn payable on demand (which include those payable on presentation or at sight) or within three days after date or sight, no matter what the amount, the stamp duty is only 2d.; and a 2d. adhesive stamp may be used, provided the stamp is affixed at the time of issuing the bill and is properly cancelled by the drawer. In all other cases bills must be written on paper bearing an impressed stamp of the proper value. Any person dealing with a bill of exchange improperly stamped renders himself liable to a penalty of £10.

If a bill is payable *with interest*, the stamp duty covers the interest unless the amount of it is mentioned in the bill.

Legal Liability of Drawer.—By section 55 of the Bills of Exchange Act, the drawer of a bill by drawing it:—

(*a*) Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or any indorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken;

(*b*) Is precluded from denying to a holder in due course the existence of the payee and his then capacity to indorse.

Long Bills.—These are bills that have a long currency or tenor, *i.e.*, time to run before maturity, such as those drawn at two months after date and upwards.

Short Bills.—These are bills whose currency or tenor is only for a very short period, such as those payable on demand or within ten days.

Option of treating Bill of Exchange as a Promissory Note.—Where in a bill drawer and drawee are the same person, or where the drawee is a fictitious person or a person not having capacity to contract, the holder may treat the instrument, at his option, either as a bill of exchange or as a promissory note.

Certainty as to Drawee and Payee.—The drawee must be named or otherwise indicated in a bill with reasonable certainty. A bill may be addressed to two or more drawees whether they are partners or not, provided they are not addressed alternatively or in succession.

Where a bill is not payable to bearer, the payee must be named or otherwise indicated therein with reasonable certainty. A bill may be made payable to two or more payees jointly, or alternatively to one of two or one of several payees. A bill may also be made payable to the holder of an office for the time being. Where the payee is a fictitious or non-existing person the bill may be treated as payable to bearer.

Sum Payable.—The sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid:—

(*a*) With interest.

(*b*) By stated instalments.

(*c*) By stated instalments, with a provision that upon default in payment of any instalment the whole shall become due.

Where the sum payable is expressed in words and also in figures, and there is a discrepancy between the two, the sum denoted by the words is the amount payable.

Where a bill is expressed to be payable with interest, unless the bill provides otherwise, such interest runs from the date of the bill, or, if the bill is undated, from the issue of it.

Bill Payable on Demand.—A bill is payable on demand:—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation; or

(*b*) In which no time for payment is expressed.

Where a bill is accepted or indorsed when it is overdue, it is deemed a bill payable on demand as regards any such acceptor or indorser.

Bill Payable at a Future Time.—A bill is payable at a determinable future time within the meaning of the Act which is expressed to be payable:—

(1) At a fixed period after date or sight.

(2) On or at a fixed period after the occurrence of a specified event which is certain to happen, though the time of happening may be uncertain.

An instrument expressed to be payable on a contingency is not a bill, and the happening of the event does not cure the defect. Thus a bill payable on a person's marriage would not be valid, even though the marriage took place. Again, a bill payable on the arrival of a vessel at the port—say—of Liverpool or London would not be valid even though the vessel did actually arrive there. But a bill payable at a person's death, or at a certain time after his death, would be quite valid.

Date of Bill.—A bill is not invalid by reason of its not being dated, being ante-dated, post-dated, or dated on a Sunday.

Where a bill expressed to be payable at a fixed period after date is issued undated; or where the acceptance of a bill payable at a fixed period after sight is undated, any holder may insert therein the true date of issue or acceptance, and the bill is then payable accordingly. And should the holder in good faith and by mistake insert a wrong date, the bill is not avoided thereby, but is still payable as if the date so inserted had been the true date. The holder who fills in a date after acceptance should notify the acceptor, so that the latter may know the exact date of maturity.

d/d.—Means days after date.

d/s.—Means days after sight.

m/d.—Means months after date.

Calculation of Time of Payment and Days of Grace.—All bills except those payable on demand (which include those at sight or on presentation and those in which no time of payment is expressed)

are subject to days of grace; that is, three extra days must be allowed for payment beyond the date mentioned in the bill. These three days used to be customary, but the law has now made them compulsory; and the bill is due and payable on the last day of grace. No right of action accrues until *after* the last day of grace. When the last day of grace falls on a Sunday, Christmas Day, Good Friday, or a day appointed by Royal Proclamation as a public fast or thanksgiving day, the bill is due and payable on the *preceding* business day. When the last day of grace is a bank holiday under the Bank Holidays Act, 1871, and other Acts, or when the last day of grace is a Sunday and the second day of grace is a bank holiday, the bill is due and payable on the *succeeding* business day. If days of grace are not to be allowed, this fact must be specially noted on the bill by inserting the phrase "without days of grace," or by adding the word "fixed" after the time stated, as "on the 4th June fixed."

Where a bill is payable at a fixed period after date, after sight, or after the happening of a specified event, the time of payment is determined by excluding the day from which the time is to begin to run and by including the day of payment. In the case of leap year, one day more must be allowed to the month of February.

Where a bill is payable at a fixed period after sight, the time begins to run from the date of the acceptance if the bill is accepted, and from the date of noting or protest if the bill be noted or protested for non-acceptance, or for non-delivery.

The term "month" in a bill means calendar month. Thus bills drawn on Dec. 28th, Dec. 29th, Dec. 30th, Dec. 31st at 2 months would all mature on the same date, nominally on Feb. 28th, but legally on March 3rd (allowing for days of grace).

Case of Need.—The drawer of a bill, and any indorser, may insert in the bill the name of a person to whom the holder may resort in case of need, that is, in case the bill is dishonoured by non-acceptance or non-payment. Such person is called the **referee in case of need.** It is in the option of the holder to resort to the referee in case of need or not as he may think fit.

Acceptance.—The acceptance of a bill is the signification by the drawee of his assent to the order of the drawer. After the bill is drawn, it is sent, by either the drawer or the payee, to the drawee for acceptance. This acceptance is effected by the drawee writing his signature across the face of the bill, though it is apparently quite legal if written on the back of it. The word "accepted" is generally prefixed, but is not legally necessary. It is the common practice to obtain acceptance as soon as possible, though there is no legal necessity until any time before the date of payment, unless the bill is payable after sight or expressly stipulates that it shall be presented for acceptance, in which cases it is necessary in order to fix the date of maturity.

By the Act an acceptance is invalid unless it complies with the following conditions:—

(*a*) It must be written on the bill and be signed by the drawee. The mere signature of the drawee *without any additional words* is sufficient.

(*b*) It must not express that the drawee will perform his promise by any other means than the payment of money.

A bill may be accepted before it has been signed by the drawer, when it is overdue, or after dishonour by non-acceptance or non-payment. Should a drawee refuse to accept a bill payable after sight and then subsequently agree to do so, the holder is entitled to make the date of acceptance the date of the first presentment.

Domicile.—When the drawee on accepting a bill marks on it the *place* of payment, this is called the domicile of the bill. If no place is mentioned, the bill is payable at the acceptor's usual place of business.

Kinds of Acceptance.—An acceptance may be either (*a*) general or (*b*) qualified.

A general acceptance assents without qualification to the order of the drawer. **A qualified acceptance** in express terms varies the effect of the bill as drawn. In particular, an acceptance is qualified which is:—

(*a*) **conditional,** that is to say, which makes payment by the acceptor dependent on the fulfilment of a condition stated therein;

(*b*) **partial,** that is, an acceptance to pay part only of the amount for which the bill is drawn;

(*c*) **local,** that is, an acceptance to pay only at a particular specified place. An acceptance to pay at a particular place is a general acceptance, unless it expressly states that the bill is to be paid there only and not elsewhere;

(*d*) **qualified as to time,** as when a bill for two months is accepted for four;

(*e*) **the acceptance of one or more of the drawees,** but not of all.

The holder of a bill may refuse to take a qualified acceptance, and if he does not obtain an unqualified acceptance, he may treat the bill as dishonoured by non-acceptance.

Note.—An acceptance on behalf of a firm or a limited company or in any fiduciary capacity should contain the name of the firm or company and be accepted for them, otherwise it may legally be held to be merely the personal acceptance of the party or parties signing; and this would render the latter personally liable on the bill. Thus acceptance should be—

For and on behalf of A. B. Co., Ltd.

_____

Director.

And not—

_____

Director of A. B. Co., Ltd.

Presentment for Acceptance.—The presentment must be made by or on behalf of the holder, to the drawee or to some person authorised to accept on his behalf, at a reasonable hour on a business day and before the bill is overdue.

Where a bill is addressed to two or more drawees, who are not partners, presentment must be made to them all, unless one has authority to accept for all, when presentment may be made to him only. Where the drawee is dead, presentment may be made to his personal representative. Where the drawee is bankrupt, presentment may be made to him or to his trustee. Where authorised by agreement or usage, a presentment through the Post Office is sufficient.

Presentment for acceptance is excused, and the bill may be treated as dishonoured by non-acceptance:—

(*a*) Where the drawee is dead or bankrupt, or is a fictitious person, or a person not having capacity to contract by bill;

(*b*) Where after the exercise of reasonable diligence presentment cannot be effected.

The fact that the holder has reason to believe that the bill, on presentment, will be dishonoured does not excuse presentment.

Dishonour by Non-acceptance.—When a bill is duly presented for acceptance and is not accepted within the customary time (usually twenty-four hours), it must be treated as dishonoured by non-acceptance, or else the holder will lose his right of recourse against the drawer and indorsers.

A bill is dishonoured by non-acceptance:—

(*a*) When it is duly presented for acceptance, and such acceptance cannot be obtained; or

(*b*) When presentment for acceptance is excused and the bill is not accepted.

When a bill is dishonoured by non-acceptance, an immediate right of recourse against the drawer and indorsers accrues to the holder, and no presentment for payment is necessary.

Recourse.—This term denotes the right of a *bonâ fide* holder of a bill of exchange to require payment of it from some person other than the acceptor, that is, from any of the indorsers, or from the drawer.

Legal Liability of the Acceptor.—The acceptor of a bill, by accepting it:—

(1) Engages that he will pay it according to the tenor of his acceptance;

(2) Is precluded from denying to a holder in due course:—

(*a*) The existence of the drawer, the genuineness of his signature, and his capacity and authority to draw the bill;

(*b*) In the case of a bill payable to drawer's order, the then capacity of the drawer to indorse, but not the genuineness or validity of his indorsement;

(*c*) In the case of a bill payable to the order of a third person, the existence of the payee and his then capacity to indorse, but not the genuineness or validity of his indorsement.

If there are several acceptors, they are liable *jointly*, not jointly and severally.

Delivery of Bill.—A bill of exchange, although complete in form, is, like a deed, of no effect against the parties to it until it has been properly delivered. If, therefore, a bill of exchange gets into circulation through being stolen from the drawer, acceptor, or indorsers, they will not be liable upon it except to a holder in due course.

Negotiable Instruments.—Partly by custom (modern as well as ancient) and partly by statute law certain documents, including bills of exchange, have acquired negotiability. The characteristics of negotiable instruments are:—

(1) The property in them, and not merely the possession, passes by delivery.

(2) The holder in due course is not prejudiced by any defects of title on the part of the transferor or any previous holder, even though such prior party may have stolen the bill.

(3) The holder can sue upon them in his own name.

Generally speaking, if the holder's title can be made good through theft then the document is a negotiable one; if not, then it is not negotiable. The following are examples of negotiable instruments: coins of the realm, bills of exchange, bank notes, cheques, promissory notes, dividend warrants, East India bonds, exchequer bills, share warrants, bearer debentures and scrip, and bonds of foreign and Colonial Governments.

Negotiation of Bill.—A bill being a negotiable instrument may be transferred from one person to another, who then acquires all the rights in it. A bill, negotiable in its origin, continues to be negotiable, *i.e.*, may be re-issued, until it has been (*a*) restrictively indorsed or (*b*) discharged by payment or otherwise. Any holder may indorse over or transfer a bill unless the bill contains in the body thereof words prohibiting its transfer, or bears a restrictive indorsement. If a bill is payable to bearer, it is transferable simply by delivery; if payable to order, it is transferable by indorsement and delivery; that is, it requires the holder's signature on the back of it before being passed on. In any case, it is always advisable to obtain the indorsement of a transferor in order to make him liable as a party to the bill, which he would not be otherwise.

Indorsement.—The requisites of a valid indorsement are that it must be written on the bill itself and be signed by the indorser. The simple signature of the indorser *without additional words* is sufficient. The indorsement is usually on the back of the bill, though quite legal if on the front of it. The number of indorsements

may be so numerous that the space on the back of the bill is insufficient to contain all the signatures. In this case a slip of paper, called an **allonge**, may be pasted on to the bill to receive any further indorsements. The first person to sign afterwards should write his signature partly on the bill and partly on the allonge, in order to prevent the two being separated; otherwise the first signature on the allonge might be fraudulently attached to a bill of a larger amount. An indorsement written on an allonge, or on a "copy" of a bill, is deemed to be written on the bill itself.

Where, in a bill payable to order, the payee or indorsee is wrongly designated, or his name is misspelt, he should indorse the bill as therein described, adding, *if he thinks fit*, his proper signature.

Kinds of Indorsements.—An indorsement may be in blank or special. It may also contain terms making it restrictive. An **indorsement in blank** specifies no indorsee, and a bill so indorsed becomes payable to bearer. A **special indorsement** specifies the person to whom, or to whose order, the bill is to be payable, as "pay C D or order." A **restrictive indorsement** prohibits the further negotiation of the bill, as "pay C D only," or "pay C D for the account of E," or "pay C D or order" for collection. Where any person is under obligation to indorse a bill in a representative capacity, he may indorse the bill in such terms as to negative personal liability. The indorsement "sans recours" (without recourse) is thus often used by persons who have been acting as agents and not principals. A **facultative indorsement** is one in which an indorser has, as regards himself, waived some or all of the holder's duties, such as presentment for payment, notice of dishonour, etc. Example:—

Pay C D or order,
Notice of Dishonour waived.
A B.

An indorsement must not be partial or conditional; it must be for the whole bill; and if the indorsement *is* conditional, the condition may be ignored by the payer.

Circuity of Action or Negotiation Back.—Where a bill is negotiated back to the drawer, or to a prior indorser, or to the acceptor, such party may re-issue and further negotiate the bill, but cannot enforce payment of the bill against any intervening party to whom he was previously liable. Thus if Brown draws a bill and indorses it to Jones, Jones indorses to Roberts, Roberts to Green, and finally Green indorses back to Brown, Brown can re-issue and negotiate the bill but cannot enforce payment against Jones, Roberts, or Green. In like manner, if any other person becomes, for the *second* time, an indorser of the same bill, all intervening indorsers between his first and second indorsements are discharged from liability.

Legal Liability of Indorser.—The indorser of a bill by indorsing it:—

(*a*) Engages that on due presentment it shall be accepted and paid according to its tenor, and that if it be dishonoured he will compensate the holder or a subsequent indorser who is compelled to pay it, provided that the requisite proceedings on dishonour be duly taken.

(*b*) Is precluded from denying to a holder in due course the genuineness and regularity in all respects of the drawer's signature and all *previous* indorsements.

(*c*) Is precluded from denying to his *immediate* or a *subsequent* indorsee that the bill was at the time of his indorsement a valid and subsisting bill, and that he had then a good title thereto.

Where a person signs a bill otherwise than as drawer or acceptor, he thereby incurs the liabilities of an indorser to a holder in due course. This is known as "backing" a bill.

Consideration.—The words "for value received" are usually written in a bill, but are not legally necessary, as a bill is not invalid by reason that it does not specify the value given, or that any value has been given therefor. Moreover, every party whose signature appears on a bill is *primâ facie* deemed to have become a party thereto for value. This presumption, however, may be rebutted by evidence to the contrary. Valuable consideration for a bill may be constituted by:—

(*a*) Any consideration sufficient to support a simple contract;

(*b*) An antecedent debt or liability, whether the bill is payable on demand or at a future time.

If a bill which has been previously accepted for value received is ultimately handed to a person as a gift, the holder cannot recover the amount from his immediate transferor as no consideration has passed; he can, however, recover it from any of the other parties to the bill. If a bill be given for a wagering or gaming debt, the holder cannot sue the loser upon it as the consideration is illegal. But if the bill is transferred for value to a third person who is unaware of the gaming transaction, such third person can enforce payment. This is so even in the case where a cheque (which is a bill of exchange) is drawn in a foreign country on a banker in this country, for a consideration which is legal in the country where it is drawn, but illegal in this country. The law of England always prevails in the case of bills of exchange, which are drawn in such a manner as to make them English bills.

Presentment for Payment.—Except in a few special instances, a bill must be duly presented for payment, otherwise the drawer and indorsers will be discharged from their liability. A bill payable on demand must be presented within a "reasonable" time. A bill not payable on demand must be presented on the due date at the place of payment or address of drawee or acceptor mentioned in the bill; or if this is not specified, at the drawee's or acceptor's

place of business if known ; and if not, at his ordinary residence if known ; and if not, at his last known place of business or residence, or wherever he can be found. Where authorised by agreement or usage, a presentment through the Post Office is sufficient. Presentation for payment is not necessary in order to make an *acceptor* liable.

Delay in presentment for payment is excused when the delay is caused by circumstances beyond the control of the holder of the bill. Presentment is excused where the drawee is a fictitious person, by express or implied waiver, and where, after the exercise of reasonable diligence, presentment cannot be effected. The fact that the holder has reason to believe that the bill will, on presentment, be dishonoured, does not dispense with the necessity for presentment.

Dishonour by Non-Payment.—A bill is dishonoured by non-payment (*a*) when it is duly presented for payment and payment is refused or cannot be obtained, or (*b*) when presentment is excused by the Act and the bill is overdue and unpaid. When a bill is dishonoured by non-payment, an immediate right of recourse against the drawer and indorsers accrues to the holder. When a bill is dishonoured by non-acceptance or non-payment, notice of dishonour must be given to the drawer and each indorser, or they will be discharged from their obligations. The notice may be given in writing or by personal communication. The return of a dishonoured bill to the drawer or an indorser is, in point of form, deemed a sufficient notice of dishonour. Notice must be given immediately after dishonour or within a reasonable time. Each party who receives notice of dishonour is allowed reasonable time to give notice to antecedent parties to the bill. Where a notice of dishonour is duly addressed and posted, the sender is deemed to have given due notice of dishonour, notwithstanding any miscarriage by the Post Office.

Delay in giving notice of dishonour is excused where the delay is caused by circumstances beyond the control of the party giving notice. Notice of dishonour is dispensed with where the drawee is a fictitious person or a person not having capacity to contract; by waiver express or implied; where, after the exercise of reasonable diligence, notice cannot be given; where the bill is an accommodation bill as between the parties accommodated; and in a few other instances.

Noting and Protest of Bill.—Where an inland bill has been dishonoured, it may, if the holder think fit, be noted for non-acceptance or non-payment as the case may be ; but noting is not legally necessary to preserve the holder's rights against the drawer and indorsers. It is often done, however, in order to prevent any subsequent dispute as to the dishonour. A bill which has been

protested for non-acceptance may be subsequently protested for non-payment. Provided a bill is duly noted on the day of its dishonour, or on the next succeeding business day, the protest may be extended subsequently as of the same date as the noting. A bill must be protested at the place where it is dishonoured, unless it has been presented through the Post Office, when it may be protested at the place to which it is returned by post. Where the acceptor of a bill becomes bankrupt or insolvent or suspends payment before it matures, the holder may cause the bill to be protested for better security against the drawer and indorsers.

Notary Public.—This is a public officer whose duty is to certify deeds and other documents. The word "notary" is derived from the Latin *notarius* = a writer. The duties of a notary also include the presentation of dishonoured bills of exchange, and noting their non-acceptance or non-payment and afterwards protesting them if necessary.

Noting Charges.—These are the notary's fees for re-presenting the bill, recording and certifying its dishonour, and, if required, drawing up the protest. When dishonoured bills are noted, the noting charges must be paid by the holder of the bill, who is entitled to recover them from the acceptor or from the person from whom he received the bill. The notary makes a copy of the bill in his register, and then writes on the bill itself the date, his charges, the letter or folio of his register, and lastly his initials. He, or his clerk, then re-presents the bill for acceptance, or payment, as the case may be. If it is dishonoured again, he gums on to the bill a small ticket or label containing his charges and the reason given for dishonour. The following is an example :—

NOTING TICKET

PETER BROWN & Co.,
NOTARIES
6 ABBEY LANE, E.C.
NOTING CHARGES, 7*s.* 6*d.*
Refer to Acceptor

Other reasons given might be "No Orders," "No Advice," "No Effects," "No Instructions," or "No Funds."

When Noting or Protest is necessary.—Noting or protest is absolutely necessary in the following cases :—

(1) Before a bill can be presented for payment to a referee in case of need.

(2) Prior to an acceptance or payment for honour.

(3) On dishonour of a bill by an acceptor for honour.

(4) In the case of non-acceptance or non-payment of foreign bills.

Protest.—This is the formal declaration in writing made by the notary public against the non-acceptor or non-payer of a bill of exchange. A Protest must contain a copy of the bill, and must be signed by the notary making it, and must specify:—

(*a*) The person at whose request the bill is protested;

(*b*) The place and date of protest, the cause or reason for protesting the bill, the demand made, and the answer given, if any, or the fact that the drawee or acceptor could not be found.

It is not necessary to protest a bill in order to make the *acceptor* liable.

Where a dishonoured bill or note is authorised or required to be protested, and the services of a notary cannot be obtained at the place where the bill is dishonoured, any householder or substantial resident may, in the presence of two witnesses, give a certificate signed by them, attesting the dishonour of the bill, and the certificate operates as if it were a formal protest of the bill. The following is a copy of the form contained in the Act:—

KNOW all men that I *A B* [householder], of _____ in the county of _____ in the United Kingdom, at the request of *C D*, there being no notary public available, did on the _____day of _____ 19__ at _____ demand payment [*or* acceptance] of the bill of exchange hereunder written, from *E F*, to which demand he made answer [state answer, if any] whereof I now, in the presence of *G H* and *J K* do protest the said bill of exchange.

(Signed) *A. B.*
G. H. } Witnesses
J. K. }

N.B.—The bill itself should be annexed, or a copy of the bill and all that is written thereon should be underwritten.

The stamp duty for the above is the same as for the bill itself, but not exceeding 1s. in any case, and postage stamps may be used.

Damages on Dishonour.—Where a bill is dishonoured, the measure of damages, deemed to be liquidated damages, is as follows:—

(1) The holder may recover from any party liable on the bill, and the drawer who has been compelled to pay the bill may recover from the acceptor, and an indorser who has been compelled to pay the bill may recover from the acceptor or from the drawer, or from a prior indorser:—

(*a*) The amount of the bill;

(*b*) Interest thereon from the time of presentment for payment if the bill is payable on demand, and from the maturity of the bill in any other case;

(*c*) The expenses of noting, or, when protest is necessary, and the protest has been extended, the expenses of protest.

Holder in Due Course.—A holder in due course is a holder who has taken a bill, complete and regular on the face of it, under the following conditions, namely:—

(*a*) That he became the holder of it before it was overdue, and without notice that it had been previously dishonoured, if such was the fact.

(*b*) That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

Every holder of a bill is *primâ facie* deemed to be a holder in due course.

Duty of Holder.—Where the holder of a bill presents it for payment, he must exhibit the bill to the person from whom he demands payment, and when a bill is paid in legal tender the holder must forthwith deliver it up to the party paying it.

Acceptance for Honour *supra* Protest.—Where a bill of exchange has been protested for dishonour by non-acceptance, or protested for better security, and is not overdue, any person, not being a party already liable thereon, may, with the consent of the holder, intervene and accept the bill *supra* protest, for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. A bill may be accepted for honour for part only of the sum for which it is drawn. An acceptance for honour *supra* protest, in order to be valid, must (*a*) be written on the bill, and indicate that it is an acceptance for honour, (*b*) be signed by the acceptor for honour.

Example—

> Accepted supra protest, or Accepted for the honour and account of_____(drawer or indorser) with £____*s.*____*d.* noting charges and expenses.
>
> M. COLLADO.

Where an acceptance for honour does not expressly state for whose honour it is made, it is deemed to be an acceptance for the honour of the drawee. Where a bill payable after sight is accepted for honour, its maturity is calculated from the date of the noting for non-acceptance, and not from the date of the acceptance for honour.

Where a dishonoured bill has been accepted for honour *supra* protest, or contains a referee in case of need, it must be protested for non-payment by the drawee (if he refuses payment on presentation of the bill to him) before it is presented for payment to the

acceptor for honour, or referee in case of need. When a bill of exchange is dishonoured by the acceptor for honour, it must be protested for non-payment by him.

Legal Liability of Acceptor for Honour.—The acceptor for honour of a bill by accepting it:—

(1) Engages that he will, on due presentment, pay the bill according to the tenor of his acceptance, if it is not paid by the drawee, provided that it has been duly presented for payment, and protested for non-payment, and that he receives notice of these facts.

(2) Is liable to the holder and to all parties to the bill *subsequent* to the party for whose honour he has accepted.

Payment for Honour *supra* Protest.—Where a bill has been protested for non-payment, any person may intervene and pay it *supra* protest for the honour of any party liable thereon, or for the honour of the person for whose account the bill is drawn. Payment for honour *supra* protest, in order to operate as such and not as a mere voluntary payment, must be attested by a notarial act of honour which may be appended to the protest or form an extension of it.

Alteration of Bill.—Where a bill or acceptance is materially altered without the assent of all parties liable on the bill, the bill is avoided except as against a party who has himself made, authorised, or assented to the alteration, and *subsequent* indorsers. In particular the following alterations are material, namely, any alteration of the date, the sum payable, the time of payment, the place of payment, and where a bill has been accepted generally, the addition of a place of payment without the acceptor's assent. Alterations on a bill should, therefore, be initialled by all parties to the bill.

Lost Bill.—Where a bill has been lost before it is overdue, the person who was the holder of it may apply to the drawer to give him another bill of the same tenor, giving security to the drawer if required to indemnify him against all persons whatever in case the bill alleged to have been lost is found again. If the drawer, on request, refuses to give such duplicate bill, he may be compelled to do so.

Forgery.—No title to a bill can be made through forgery. A transferee acquires no rights through a bill which bears a forged signature either drawer, acceptor, or indorser, even though he had no knowledge of the forgery. He can, however, demand repayment of the amount he has paid for the bill from his transferor.

Discharge of Bill.—A bill is discharged, *i.e.*, all rights of action on it extinguished, by payment in due course by or on behalf of the drawee or acceptor. "Payment in due course" means payment made in legal tender *at* or *after* the maturity of the bill to the holder thereof in good faith and without notice that his title to the

bill is defective. If a cheque is tendered in payment of a bill, the bill will be retained until the cheque is met, as cheques are not legal tender. Payment by the acceptor *before* maturity does not discharge the bill, and the acceptor may re-issue it. Payment by the drawer or an indorser does not discharge a bill. Where a bill payable to, or to the order of, *a third party* is paid by the drawer, the drawer may enforce payment thereof against the acceptor, but may not re-issue the bill. Where a bill is paid by an indorser, or where a bill payable to *drawer's order* is paid by the drawer, the party paying it is remitted to his former rights as regards the acceptor or antecedent parties, and he may, if he thinks fit, strike out his own and subsequent indorsements, and re-issue the bill. When the acceptor of a bill is or becomes the holder of it at or after its maturity, in his own right, the bill is discharged. When the holder of a bill at or after its maturity, by express waiver in writing, or by delivering up the bill to the acceptor, absolutely and unconditionally renounces his rights against the acceptor the bill is discharged. Where a bill is intentionally cancelled by the holder or his agent, and the cancellation is apparent thereon, the bill is discharged.

Moratorium.—This term, which is a Latin word derived from *morari* = to delay, denotes a legal authorisation to delay for a stated time the payment of certain specified debts or obligations.

Though of frequent occurrence in foreign countries in times of war and great financial stress, there has been no moratory law in this country for over a century, in fact, not since the Napoleonic wars. Owing, however, to the outbreak of European war in 1914, which involved this country in war with Germany, a moratorium for bills of exchange was proclaimed in the United Kingdom. This memorable document was as appears on next page.

The Bank rate of interest at this time was 6 per cent. On the 6th August, the moratorium was extended to many other forms of indebtedness.

The idea of a moratorium like the one shown is to allow debtors on bills of exchange, particularly firms who are unable to obtain payment from foreign debtors, time to collect the necessary funds to meet their own obligations, and thus save themselves from bankruptcy.

ACCOMMODATION BILLS

Definition.—An Accommodation Bill is a bill put into circulation in order to raise money on it by the process of discounting. It differs from an ordinary trade bill in that no value has been received for it. Accommodation Bills are also known as "fictitious bills," "kites," and "windmills."

Method of Procedure.—Bills may be drawn for the accommodation of either drawer or acceptor, or for the mutual accommodation of

both. The discount charges are borne by the party or parties receiving the proceeds of the bill. The party accommodated engages:—

(*a*) to provide funds for the payment of the bill at maturity;
(*b*) to indemnify the accommodating party should the latter be compelled to pay the bill.

Accommodation Party.—By the Bills of Exchange Act an accommodation party is a person who has signed a bill as drawer, acceptor,

SUNDAY, 2 AUGUST, 1914.

BY THE KING.

A PROCLAMATION

FOR POSTPONING THE PAYMENT OF CERTAIN BILLS OF EXCHANGE.

GEORGE R.I.

WHEREAS in view of the critical situation in Europe and the financial difficulties caused thereby it is expedient that the payment of certain bills of exchange should be postponed as appears in this Proclamation:

Now, THEREFORE, We have thought fit, by and with the advice of Our Privy Council, to issue this Our Royal Proclamation, and We do hereby proclaim, direct, and ordain as follows:—

If on the presentation for payment of a bill of exchange other than a cheque or bill on demand, which has been accepted before the beginning of the fourth day of August, nineteen hundred and fourteen, the acceptor re-accepts the bill by a declaration on the face of the bill in the form set out hereunder, that bill shall, for all purposes, including the liability of any drawer or indorser or any other party thereto, be deemed to be due and be payable on a date one calendar month after the date of its original maturity instead of on the date of its original maturity, and to be a bill the original amount thereof increased by the amount of interest thereon calculated from the date of re-acceptance to the new date of payment at the Bank of England rate current on the date of the re-acceptance of the bill.

Form of Re-Acceptance.

Re-accepted under Proclamation for £ (insert increased sum).

Signature_____

Date_____

Given at Our Court at Buckingham Palace, this second day of August, in the year of our Lord one thousand nine hundred and fourteen, and in the Fifth year of Our Reign.

GOD save the KING.

or indorser, without receiving value therefor, and for the purpose of lending his name to some other person.

Liability of an Accommodation Party.—An accommodation party is liable on the bill to a holder for value; and it is immaterial whether when such holder took the bill, he knew such party to be an accommodation party or not. The drawer and acceptor are not liable to each other, but only to a third party, *i.e.*, a holder for value. If, however, they have shared the proceeds of the bill when discounted,

or if they have drawn on each other for the same amount and received each other's acceptance (called a cross acceptance), these things would constitute "consideration," and they would then be liable to each other.

Notice of Dishonour.—This is dispensed with by the Act as between the accommodation party and the party accommodated.

Discharge of Bill.—Where an accommodation bill is paid in due course by the party accommodated the bill is discharged. Unlike a trade bill, the principal debtor is not necessarily the acceptor, but the party accommodated.

FOREIGN BILLS

Definition.—According to section 4 of the Bills of Exchange Act a "foreign" bill is any other bill which does not come within the definition of an inland bill. It is generally defined as "a bill drawn in one country but payable in another." Foreign bills are usually drawn in sets of three, called "vias," and generally contain the phrase "value received" or "value in account." Each via is numbered, and stipulates that it is to be paid only if the other two vias are unpaid. To minimise the risk of loss, and to avert the delay arising therefrom, the three forms are dispatched at different times, *i.e.*, by different mail steamers.

Documentary Bills.—These are foreign bills having certain documents attached.

Clean Bills.—These are foreign bills having *no* documents attached.

Form of Bill.—There is no particular form of bill required by the Act. The following is a specimen in common use :—

London,
Exchange for £800. 21 *Jan.*, 19__

8/-

Thirty days after sight pay this First of Exchange (Second and Third of the same date and tenor unpaid) to Messrs. Carpentier et Cie, or order, eight hundred pounds, value in account.

J. Rowell.

To Messrs. Hachette Frères,
Lyons.

Sum Payable.—In addition to the cases mentioned under Inland Bills, the sum payable by a bill is a sum certain within the meaning of the Act, although it is required to be paid:—

According to an indicated rate of exchange, or according to a rate of exchange to be ascertained as directed by the bill.

The sum for which a foreign bill is drawn is often stated in the currency of the country where it is payable. Where a bill is drawn out of, but payable in, the United Kingdom, and the sum payable is not expressed in the currency of the United Kingdom, the amount in the absence of some express stipulation, is calculated according to the rate of exchange for sight drafts at the place of payment on the day the bill is payable.

Bill in a Set.—Where a bill is drawn in a set, each part of the set being numbered, and containing a reference to the other parts, the whole of the parts constitute one bill. The acceptance may be written on any part, and it must be written on one part only. Any person who accepts, or any person who indorses, more than one part will be liable on the said parts as if they were separate bills. With these exceptions, where any one part of a bill drawn in a set is discharged by payment or otherwise, the whole bill is discharged.

Sola.—This term, or "Sola Draft," "Sola of Exchange," appearing on a bill of exchange means that it is the sole or only bill, *i.e.*, that the bill has not been drawn in a set. With near countries nowadays one copy, or a first and second of exchange, are often deemed sufficient, as the mail service is more regular and reliable than in former times.

Foreign Bills drawn in Sterling.—The custom has long prevailed amongst English merchants of drawing on their foreign customers in the home currency instead of in the currency of the country where the bill is payable, and of stipulating that the bill shall be paid at the rate of exchange ruling on the day of the first London endorsement. For example :—

£227 16s. 11d.

LIVERPOOL,
15 *Sept.*, 19__

Three months after date pay this First of Exchange (second and third same date and tenor unpaid) to Signor F. Spraghetti, or order, the sum of two hundred and twenty-seven pounds sixteen shillings and elevenpence, at the rate of exchange as per first London indorsement, value received, and charge to account as per advice.

ROGERS & SON.

To Signori Bellami & Cia,
Genoa.

When the bill is sold the indorsement would be similar to the following :—

Pay T. Ruelli & Co., or Order, at the exchange of 25 lire and 66 centesimi for £1 sterling

The buyer, *i.e.*, the London banker or broker, will write the rate of exchange and the currency amount on the bill underneath the sterling figures; and this information will be sent by the drawer to the drawee, so that the latter may verify the exchange and know what amount he will eventually have to pay. The great advantage of this method to the drawer is that he obtains the cash for the full amount of his invoice, and thus obviates the risk of loss in Exchange. The custom seems to have originated from the violent fluctuations of Exchange in time of war or panic, and the consequent desire of the drawer to protect himself against the resultant loss. The foreign merchant thus bears the loss arising from Exchange; for no matter how low Exchange falls, he must provide a sufficient amount of the foreign currency to purchase a bill for the required sterling sum. At the same time, however, he stands a chance, should the rates be favourable, of making a profit on Exchange.

Old Style of Dating.—Bills drawn in Greece, Bulgaria, Servia, and the other countries where the Julian Calendar still prevails, are dated according to the old style. As this would give rise, in other countries, to great trouble and possibly errors in calculating the due date, such bills usually bear the date according to both calendars, thus, Jan. 4/17. Thirteen days have to be added to bring the old style of date into agreement with the new style, *i.e.*, according to the Gregorian Calendar. In 1752 England, by Act of Parliament, dropped 11 days out of the calendar, and the difference has increased, and will increase, 1 day in each successive century.

Stamp Duty.—On bills drawn in the United Kingdom and payable abroad, and on bills drawn abroad and payable in the United Kingdom, the stamp duty is the same as for inland bills. Foreign bills both ***drawn*** and expressed to be *payable out* of the United Kingdom, but which are actually paid, indorsed or negotiated *in* the United Kingdom, are stamped as follows:—

Up to £50, like an inland bill.

Exceeding £50, but not exceeding £100, 6d.

,, £100, 6d. for every £100 or fraction of a £100.

When foreign bills are payable on demand, or within three days after date or sight, a postage stamp may be used; in other cases, a proper adhesive foreign bill stamp must be affixed and properly cancelled by the first person dealing with the bill. A foreign bill (as described in this paragraph) need not be stamped before it is issued, but it must be stamped before it is negotiated in the British Isles. If the bill is drawn in foreign currency the amount, for the purpose of stamp duty, is calculated according to the rate of exchange mentioned in the bill; or if no rate is mentioned, then it is calculated according to the rate of exchange

current on the date of the bill. Stamps required by the laws of foreign countries are usually affixed by the foreign customer and debited to the account of the English merchant.

Example 1.—

Marseille,
le 20 juin 19..

Bon pour Francs 5,000.

Timbre.

À soixante cette PREMIÈRE Troisième ne Louis P. Corneille francs, valeur passerez à mon

Accepté 15 juillet, 19__ payable au Crédit Lyonnais succursale á X. Léon Tulle

jours de vue payez contre de CHANGE (Seconde et l'étant) à l'ordre de Monsieur la somme de cinq mille reçue en marchandises, que compte suivant avis.

A. M. Léon Tulle,
à X.

Adhesive foreign bill stamp 1s.

P. LOUBET.

No. 1,726. Au besoin chez M.M.B. et Cie.

Example 2.—

HAMBURG,
den 20 ten Juli, 19__

Gut fur Rm. 5,000.

Stempel.

Sechzig Tage PRIMA-WECHSELS unbezahlt) zahlen Ludwig Braun die Reichsmark, Wert auf Rechnung

Acceptiert den 5 August zahlbar bei der Deutsche Bank Filiale in X. Georg Flügel.

nach Sicht dieses unseres (Sekunda und Tertia Sie an die Ordre des Herrn Summe von fünf tausend erhalten, und stellen solchen laut Bericht.

An Herrn Georg Flügel,
in X.

Adhesive foreign bill stamp 1/6

FISCHER & SOHN.

No. 346. Im Notfalle bei Herren D und D.

For the purposes of the Bills of Exchange Act, bills drawn in the Channel Islands and the Isle of Man are *inland* bills; yet, for the purposes of the Stamp Act, these bills are *foreign* bills and require, not the impressed inland revenue stamp, but the adhesive foreign bill stamp.

Assuming the above bills, drawn and payable abroad, to be actually paid, indorsed, or negotiated in the United Kingdom, they must be stamped with foreign adhesive bill stamps for 1s. and 1s. 6d. respectively.

Usance.—It is customary for foreign bills to be made payable at one or more "usances," *i.e.*, time of payment as fixed by custom. For instance, the usance between London and New York is sixty days after sight, between London and Bombay thirty days after sight (30 d/s.). Double usance means double the usual time, and so on. The usance prevailing between any two countries depends upon (*a*) the distance apart, (*b*) the means and facilities for communication, (*c*) the nature of the mercantile transactions.

After Sight.—Foreign bills are generally drawn payable at so many *days* "after sight." This ensures the drawee having the benefit of the full period of time, and not losing, as when bills are drawn in months, one day in April, June, September, and November, and three days in February. The acceptor of such bills must, therefore, sight or date his acceptance, as the time for maturity begins to run from the date of such acceptance and not from the date on which the bill was drawn. The following is an example of a foreign bill duly sighted :—

Exchange for $4,000. LONDON,
21 *Jan.*, 19__

9/-

At sixty days' sight pay this First of Exchange (Second and Third of same date unpaid) to the order of Mr. James Retrop the sum of four thousand dollars, value received, and place to account as advised.

Sighted 28 Jan., 19...
Accepted payable at National Bank, New York,
A. B. & Co.

To Messrs. A B & Co.
New York

R. BRADY.

Days of Grace.—These are almost non-existent in foreign

countries; there are no days of grace in France, Italy, Russia, Holland, Belgium, Norway, Sweden, Denmark, or in New York State. Foreign bills payable in this country, however, get the benefit of the three days of grace.

How Foreign Bills are Dealt With.—Unless the foreign country happens to be a very near one, foreign bills are not sent for acceptance and return as in the case of inland bills. If the drawer has both a debtor and a creditor in the foreign country he will draw the bill on the debtor payable to the creditor. The latter will then obtain the drawee's acceptance and credit the amount of the bill to the account of the drawer. If the drawer has no creditor in the country where the bill is payable, he will draw the bill payable to his own order, indorse it, and discount it with his banker, who will no doubt have a branch, agent, or correspondent in the country where the bill is payable. Or, if he himself is of good financial standing, he may elect to dispose of it to the bill brokers and foreign bankers, who meet on Tuesdays and Thursdays at the Royal Exchange, London, for the purpose of buying and selling foreign bills.

Noting and Protest.—Where a foreign bill has been dishonoured by non-acceptance, it must be duly protested for non-acceptance; and where such a bill, which has not been previously dishonoured by non-acceptance, is dishonoured by non-payment, it must be duly protested for non-payment; otherwise the drawer and indorsers are discharged. The noting and protest is the only recognised evidence of dishonour in many foreign courts.

Damages on Dishonour.—In the case of a bill which has been dishonoured abroad, in lieu of the usual damages (mentioned under Inland Bills), the holder may recover from the drawer or an indorser, and the drawer or an indorser who has been compelled to pay the bill may recover from any party liable to him, the amount of the re-exchange, with interest thereon until the time of payment.

Re-exchange.—This is the loss resulting from the dishonour of a bill in a country different from that in which it was drawn or indorsed. The re-exchange is ascertained by proof of the sum for which a bill at sight must be drawn in order to realise, at the place of dishonour, the amount of the dishonoured bill and the expenses consequent upon dishonour. The latter comprise the expenses of protest, postage, commission, brokerage, and the cost of the stamp when a re-draft is necessary.

Conflict of Laws.—Where a bill drawn in one country is negotiated, accepted, or payable in another :—

(*a*) The validity of the bill as regards requisites in form is determined by the law of the place of issue, and as regards the supervening contracts, such as drawing, indorsement, acceptance, or acceptance

supra protest, by the law of the place where such contract was made.

(*b*) The duties of the holder with respect to presentment for acceptance or payment, and with respect to notice of dishonour, protest, etc., are determined by the law of the place where the act is done or the bill dishonoured.

(*c*) The due date of the bill is determined according to the law of the place where it is payable.

Differences between Inland and Foreign Bills.—These may be summed up as follows :—

(1) An inland bill must be written on duly stamped paper (except where the duty is only 2d.). A foreign bill can be issued *before* being stamped.

(2) A foreign bill is usually made payable at one or more usances. Inland bills are drawn payable at any period the drawer chooses.

(3) A foreign bill, if dishonoured, must be duly noted and a protest drawn up. With inland bills noting and protest are optional (except in cases of acceptance and payment for honour).

(4) Foreign bills are usually drawn in sets ; inland bills are drawn singly.

DOCUMENTARY BILLS.

Definition.—A Documentary Bill is a foreign bill having certain "documents of title" attached. The documents are usually the invoice of the goods, the bill of lading, insurance policy, and sometimes a letter of hypothecation.

Nature and Use of Documents Attached.—Foreign bills, especially those relating to shipping orders and consignments, are discounted or sold before they are accepted. The banker is thus taking a considerable risk, and seeks to protect himself by obtaining possession of the relative shipping documents. The invoice is required in order to identify the goods, and must be produced to the customs officials at the port of delivery. The bill of lading, duly indorsed, gives the banker a title to the goods ; and the shipping company will deliver only in exchange for the bill of lading. The insurance policy, duly indorsed, is the banker's security for indemnity in case the goods are lost owing to the perils of the sea. The letter of hypothecation pledges the goods as security for the payment of the bill, by giving the banker the right, in the event of the bill being dishonoured by non-acceptance or non-payment, to dispose of the goods and to charge any deficiency to the drawer. Documentary bills are also bought and sold by bill brokers. They form a convenient means of settling debts in the countries where the bills are payable, the documents attached affording security to the purchaser.

Letter of Hypothecation.—The following is a specimen :—

London,
20th June, 19__

The Safe Bank Ltd.,
Hillcorn, E.C.

Dear Sirs,

We enclose herewith bill for £600 at 90 days' sight drawn by us on Messrs. Roberts & Son, Wellington, New Zealand. In consideration of your advancing to us on same 80 %, namely £480, we hand you the following set of shipping documents :—

Invoice for 20 Cases of Goods value £600, in triplicate ;

Bill of Lading for above 20 cases marked R. & Son 626/57, in triplicate ;

Policy of Marine Insurance for £650, in duplicate.

Freight on the goods has been paid by us.

In the event of the said bill being dishonoured, we authorise you to sell such goods for our account and at our risk, and to charge us with the usual expenses and commission.

Yours faithfully,
F. Francis & Co.

Letters of Hypothecation are not used nearly so much now in these days of telegrams and cables as formerly, the banker referring, on dishonour, to the drawer for instructions, repayment of bill, and disposal of goods. This is more particularly the case where the drawer keeps a substantial current account with the bank concerned.

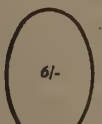
Method of Procedure.—The banker having discounted the bill, or made the required advance, generally 80 to 90 per cent. *less* charges, forwards the bill (the first copy being duly stamped), together with the original documents attached, to his branch or agent at the place of destination of the goods. A second set is sent by the next mail, the third set being retained by the banker. When the goods arrive they are unshipped and stored in the dock warehouses by the banker's agent, who calls upon the drawee for acceptance or payment of the bill, in return for which he surrenders the documents. Where the drawee is a trader of good financial standing, the banker's agent will release the goods as soon as the bill has been accepted ; in such cases the bill generally contains the clause "*documents attached to be surrendered on acceptance.*" In other cases the agent will be instructed to obtain not only acceptance, but payment of the bill at maturity, before releasing the goods.

With some indents (shipping orders from abroad) the bill is drawn at such a period, that maturity of the bill will coincide with the arrival of the goods. If the customer so desires, he may pay the bill by instalments, obtaining in return a corresponding portion of the goods. Where the customer wishes to secure possession of the whole of the goods before maturity of the bill, in order to take advantage of a favourable market, he may retire the bill under rebate, that is, a cash discount for the unexpired term of the bill. The banker's charges include, not only commission and cost of stamp that may be necessary in the foreign country, but also interest from the date of the bill up to maturity. And hence, if the bill is paid before the due date, the banker will be quite willing to forego the unearned portion of the interest. Bills drawn in sterling, and not in the currency of the country whence they are forwarded, are payable at some specified rate of exchange; and, in such cases, the banker's charges may be covered by the rate of exchange at which he buys the bill. Sometimes the amount to be paid is the amount of the bill, plus interest on it up to the time when the remittance in payment reaches London, or other place of making the original advance. On receipt of advices that the bill has been duly honoured, the banker will pay the remaining 10 or 20 per cent. due on the bill. Documentary bills are used principally in the import and export trade, both of which are virtually financed by means of these bills under the above-mentioned procedure. Inward and outward shipments are also made against bills drawn payable at sight, but more usually against bills drawn at ordinary usance.

Examples of Documentary Bills.—The following are fair specimens of the documentary bills in ordinary use :—

No. 356 LONDON,

Exchange for £600. 20*th June*, 19__



Ninety days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to us or our order the sum of Six hundred pounds, value received against R. & Son 626/45 = 20 Cases of Goods per ss. *Crown Prince*, and place to account as advised. Shipping documents attached to be surrendered on payment.

To Messrs. Roberts & Son,
Wellington,
New Zealand.

F. FRANCIS & Co.

The above bill would be indorsed :—

Pay to the Safe Bank, Ltd., or Order,
F. Francis & Co.

No. 764 LONDON,
Exchange for £450. *4th Jan.*, 19__

Sixty days after sight of this FIRST OF EXCHANGE (Second and Third of same date and tenor unpaid) pay to our order the sum of Four hundred and fifty pounds sterling, payable at the National Bank of India's drawing rate for demand drafts on London, with interest at six per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London, value received against S.S. & S. 623/89 = 15 bales of Cotton Goods per ss. *Queen Maud.* Shipping documents attached to be surrendered on acceptance.

To Messrs. Byjamji & Co.,
Bombay.

S. SELLER & SON.

The above bill would be indorsed by the drawers, thus :—

Pay The National Bank of India, or Order,
S. Seller & Son.

PROMISSORY NOTES

Definition.—By the Bills of Exchange Act, 1882, a Promissory Note is defined as—

An unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.

Promissory Notes are used chiefly for loan transactions. Like bills of exchange they are negotiable instruments, and can be transferred for value. They are sometimes discounted, and are subject to days of grace, unless payable on demand. Promissory Notes payable *to bearer* on demand for a sum greater than £1 and less than £5 are void in England.

Form of Note.—There is no special statutory form of promissory

note, but the following is a typical specimen of those in current use :—

£120. LONDON,
1st *July*, 19__

Stamp 2/-

Two months after date I promise to pay to Mr. T. Green, or order, the sum of One hundred and twenty pounds, for value received.

Y. YELLOW.

Stamp Duty.—The stamp duty on promissory notes is the same as for bills of exchange, except that it is always *ad valorem*, whether the note is payable on demand, or within three days, or otherwise.

Parties to a Note.—There are two parties to a promissory note :—

(*a*) **Maker**, the party who writes out the note, *i.e.*, the debtor. In the example given Y. Yellow is the maker.

(*b*) **Payee**, the person to whom the money is payable, *i.e.*, the creditor. In the example given T. Green is the payee.

Kinds of Notes.—Promissory notes are of two kinds, inland and foreign.

An **Inland Note** is one which is, or on the face of it purports to be, both made and payable within the British Islands. Any other note is a foreign note.

Difference between Promissory Note and Bill of Exchange.—The following points of difference should be carefully noted :—

(1) A Note is a *promise* to pay, a Bill is an *order* to pay.
(2) Bills are often drawn *in sets*, notes are made *singly*.
(3) There are *three* parties to a Bill, but only *two* to a Note.
(4) A Bill is drawn by the *Creditor*, a Note is made out by the *Debtor*.
(5) A Bill requires *acceptance*, a Note does *not*.
(6) Foreign Bills when dishonoured must be *protested*, foreign Notes need *not*.
(7) A Note payable on demand requires an *ad valorem* stamp, a Bill only a 2d. stamp.

Joint Notes, Joint and Several Notes.—By section 85 of the Bills of Exchange Act :—

(1) A promissory note may be made by two or more makers, and they may be liable thereon jointly, or jointly and severally according to its tenor.
(2) Where a note runs, "I promise to pay," and is signed by two or more persons, it is deemed to be their joint and several note.

The following is a specimen of a Joint Note :—

£100 LONDON,
25*th Feb.*, 19__

Four months after date we promise to pay to Mr. R. J. Porters the sum of One hundred pounds, value received.

W. MARSHMAN.
T. BAYES.

To convert the above into a Joint and Several Note it would have to be amended to read, " I promise to pay," or " We and each of us promise to pay," or " We jointly and severally promise to pay." A Joint and Several Note has a great advantage over a mere Joint Note, because it enables the holder to sue the makers not only jointly but also individually.

Note Payable on Demand.—Like a bill of exchange a note is payable on demand:—

(*a*) Which is expressed to be payable on demand, or at sight, or on presentation ; or

(*b*) In which no time for payment is expressed.

Presentment for Payment.—Where a promissory note is in the body of it made payable at a particular place, it must be presented for payment at that particular place in order to render the maker liable. In any other case presentment for payment is not necessary in order to render the *maker* liable. Presentment for payment is necessary in order to render an *indorser* liable.

Liability of Maker.—The maker of a promissory note by making it:—

(1) Engages that he will pay it according to its tenor.
(2) Is precluded from denying to a holder in due course the existence of the payee and his then capacity to indorse.

Promissory Note and Collateral Security.—By section 83 (3) of the Act, " A note is not invalid by reason only that it contains also a pledge of collateral security with authority to sell or dispose thereof."

Bills of Exchange Act and Promissory Notes.—The provisions of the Bills of Exchange Act apply also to promissory notes, with the following exceptions :—

(*a*) Presentment for acceptance ; (*b*) Acceptance ; (*c*) Acceptance *supra* protest ; (*d*) Bills in a set ; (*e*) Protest on dishonour.

In applying the provisions of the Act, the maker of a note is deemed to correspond with the acceptor of a bill, and the first

indorser of a note is deemed to correspond with the drawer of an accepted bill payable to drawer's order.

Foreign Promissory Notes.—A Foreign Note is any note that does not come within the definition of an Inland Note. The following are specimens :—

Example 1.—

Rs. 1,000. CALCUTTA,
20th March, 19__

Stamp

Two months after date I promise to pay to Mr. A. L. Stevenson, or his order, the sum of One thousand rupees, value received.

A. RANJI.

Example 2.—

BILLET À ORDRE

PARIS, Bon pour Francs 2,500.
le 15 *Janvier*, 19__

Timbre

A deux mois de date je payerai à Monsieur Paul Coppée, ou à son ordre, la somme de francs deux mille cinq cents, valeur reçu en espèces.

LOUIS PEINE.

Example 3.—

EIGEN-WECHSEL

BERLIN, Gut für Marks 2,000 R.W.
den 1 *ten Januar*, 19__

Stempel

Zwei Monate nach heute zahle ich gegen diesen Sola-Wechsel an Herrn Karl Hundel, oder dessen Ordre, die Summe von zwei tausend Reichsmark, den Wert bar erhalten.

HEINRICH MÜLLER.

BANK POST BILLS

Definition.—These are promissory notes to order, issued by the Bank of England and its branches, for any sum from £10 to £1,000, and are payable at 7 or 60 days after sight without days of grace.

Example.—The following is a specimen of a Bank post bill :—

BANK OF ENGLAND POST BILL.

No._____ LONDON,
1*st Jan.*, 19__

At seven days' sight I promise to pay this my SOLE BILL OF EXCHANGE to *Manuel Collado*, or order, Two hundred pounds sterling, value received of *William J. Marshman*.

For the Governors and Company of the Bank of England,
J—— N——,
£200. Chief Cashier.

Origin of the Bills.—These bills first came into use in 1738, as part of a scheme to frustrate the frequent robberies of the mails. The owner of the bill had time to give notice of any robbery that had occurred, and could thus prevent payment being made to anyone except the rightful party.

How the Bills are Obtained.—A post bill can be obtained by paying down at the Bank of England or any of its Branches the amount for which the bill is required. The Bank makes no charge, the use of the money being sufficient remuneration.

Bills Falling into Disuse.—These bills are not used nearly so much now as formerly. They are included in the Bank Return under the heading: "Seven-day and Other Bills."

BANK NOTES

Definition.—These are promissory notes, payable to bearer on demand, issued by English, Scotch and Irish banks. They may be re-issued after payment, and usually are, except by the Bank of England.

Right of Issue.—The Bank of England, and certain banks of issue, have the exclusive right of issue within a sixty-five mile radius of London, while the Bank of England has the monopoly for the City and three miles round. Owing to amalgamations with London bankers, etc., country bankers have ceased to issue notes and the Bank of England now has the sole monopoly for England and Wales.

Amounts for which Notes may be issued.—In England and Wales notes may not be issued for sums of less than £5, but Scotch and Irish Notes are issued for sums of £1 and upwards.

Bank Notes Negotiable Instruments.—Bank of England Notes are legal tender for sums above £5. As they are negotiable instruments the holder of a bank note, provided he has taken it *bona fide*

and for value, can retain it against everybody, even the lawful owner. The Bank may have "stopped payment" of certain stolen notes, but is nevertheless liable to a *bonâ fide* holder for value. For greater safety, when being sent by post, bank notes are often cut in halves, one half being forwarded by one post, and the other by a later one. The halves must be pasted together before being presented for payment; but the mutilation does not affect their negotiability.

BANK DRAFTS

Definition.—Bank drafts are bills of exchange drawn by one banker on another. As any person can buy from a banker a draft payable in any part of the United Kingdom, or in any country abroad, they form a convenient means of remitting money. They possess a certain security against fraud, inasmuch as the other bank is notified of the amount of the draft. On inland drafts a small commission is charged, but with foreign drafts this will be covered by the rate of exchange at which they are purchased.

I.O.U.

Definition.—An I.O.U. is a written memorandum or acknowledgment of indebtedness. The letters I.O.U. are a contraction for the phrase "I owe you," the sounds of both being identical. The following is an example:—

LONDON, 10*th Jan.*, 19__

To Mr. Alfred Brown,
I.O.U. £30 10s. 6d.

WILLIAM THORNYCROFT.

Points to be Noted.—An I.O.U. does not require a stamp, as it is neither a receipt nor an agreement. It should not contain any promise or date of repayment, otherwise it would require stamping as a promissory note. It is not a negotiable instrument. In a court of law it is accepted as evidence only of an account stated between the parties mentioned, but not of the amount named. The amount is sometimes written in words as well as in figures.

CHEQUES

Definition.—By the Bills of Exchange Act, 1882—

A cheque is a bill of exchange drawn on a banker payable on demand.

And, with a few exceptions, the provisions of the Act applicable to bills of exchange payable on demand apply also to cheques.

Example.—The following is a specimen of a cheque :—

No. 365,907 6 *Jan.*, 19__	No. 365,907 LONDON, *6th Jan.*, 19__
	THE ENGLISH BANK, LIMITED. LONDON, E.C.
Retrop & Co. *a/c* *rendered.*	Pay to *Messrs. Retrop & Co.* or Order the sum of *Seventy-six pounds fifteen shillings and ninepence.*
	ARTHUR J. BROWNLEY.
£76 . 15 . 9	£76—15—9

Stamp. 2d.

The form is perforated ready for division into two parts. The smaller portion, called the counterfoil, is retained in the cheque book for reference. The larger portion, called the cheque, is forwarded to the payee mentioned thereon. In the case of large firms and of limited companies the names of such firms or companies are often printed at the top of their cheques.

Bearer Cheques.—A bearer cheque is one payable to bearer, *i.e.*, that can be cashed or negotiated without previous indorsement.

Order Cheques.—An order cheque is one payable to a certain person's order. It must be indorsed before it can be cashed or transferred. The indorsement by the payee turns an order cheque into a bearer cheque, unless the payee indorses it payable to the order of someone else.

Open Cheques.—An open cheque is one that has not been crossed, *i.e.*, one that can be cashed over the counter.

Stale Cheques.—A stale cheque is one that has been drawn for some time previous to presentation for payment, *i.e.*, one that is some months old. With some bankers the period of staleness is six months, with others it is twelve months. Although a debt on a cheque can only be extinguished after six years by the operation of the Statute of Limitations, yet the general rule is to refuse payment of a stale cheque until after reference has been made to the drawer.

Alterations on Cheques.—All alterations on a cheque must be initialled by the drawer. Owing to forgeries in this respect some bankers require full signatures instead of mere initials. Only the

drawer may alter a cheque from order to bearer, but either the holder or drawer may alter a bearer cheque to an order cheque. The latter alteration does not require initialling. Where the amount expressed in words does not agree with the amount expressed in figures, the banker is bound *by the words*. Many bankers, however, return such cheques for correction.

Post-dated Cheques.—These are cheques that bear a date later than the current date on which they are drawn. They cannot, however, be cashed before the proper date. If they are paid in to a bank for collection the banker will return them, unless instructed to keep them and treat them as short bills. If a banker inadvertently pays a post-dated cheque, he must not debit his customer's account with the amount before the proper date. Although by the Act a cheque "is not invalid by reason only that it is post-dated," yet it is doubtful whether a post-dated cheque for an amount exceeding £10 is valid, owing to the stamp on it being only 2d. In book-keeping, post-dated cheques are best entered "short" (*i.e.*, the amounts not extended into the money columns) in the Cash Book, in order to prevent their being lost sight of; on the proper date they can then be re-entered in the usual way.

Fictitious or non-existing Payee.—Where a cheque is payable to a fictitious or non-existing payee, such as a cheque drawn payable to *Wages*, *Petty Cash*, or *Order*, it may, by section 7 of the Bills of Exchange Act, 1882, be treated as a cheque payable to bearer, that is, as not requiring an indorsement. Some bankers, however, request the person drawing the money to sign his name on the back of the cheque, while others require the personal signature of the drawer of the cheque; but the majority cash them without any indorsement. It appears that the indorsement of the drawer is required by the former on the ground that an "impersonal" payee is not a "fictitious" payee within the meaning of the Act.

Crossed Cheques.—The provisions of the Bills of Exchange Act with reference to the crossing of cheques are found in section 76 to 78, and are as follows:—

By section 76—

(1) Where a cheque bears across its face an addition of:—

(*a*) The words "and company" or any abbreviation thereof between two parallel transverse lines, either with or without the words "not negotiable"; or

(*b*) Two parallel transverse lines simply, either with or without the words "not negotiable"; that addition constitutes a crossing, and the cheque is crossed generally.

(2) Where a cheque bears across its face an addition of the name of a banker, either with or without the words "not negotiable," that addition constitutes a crossing, and the cheque is crossed specially and to that banker.

By section 77 :—

(1) A cheque may be crossed generally or specially by the drawer.
(2) Where a cheque is uncrossed, the holder may cross it generally or specially.
(3) Where a cheque is crossed generally, the holder may cross it specially.
(4) Where a cheque is crossed generally or specially, the holder may add the words "not negotiable."
(5) Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker for collection.
(6) Where an uncrossed cheque, or a cheque crossed generally, is sent to a banker for collection, he may cross it specially to himself.

Section 78 enacts :—

A crossing authorised by this Act is a material part of the cheque ; it shall not be lawful for any person to obliterate or, except as authorised by this Act, to add to or alter the crossing.

The above provisions apply also to dividend warrants (Section 95).

By the Finance Act, 1883, Section 17, the provisions of the Bills of Exchange Act as to crossed cheques are also extended to

any document issued by a customer of any banker, and intended to enable any person to obtain payment from such banker of the sum mentioned in such document.

Thus money orders, postal orders, demand drafts, etc., are generally crossed when sent by post or paid into a bank for collection. Such documents, however, are not rendered "negotiable."

It should be noted that the words "and Co.," or "not negotiable," do not alone form a crossing, but are merely additions to a crossing ; whereas two parallel transverse lines on a cheque do, in themselves, constitute a crossing.

Cancellation of Crossing.—Although contrary to the provisions of the Act, the crossing of a cheque can be, and often is, cancelled by the drawer writing in the crossing the words "*pay cash.*" Payees who have no banking accounts frequently ask for this to be done. Cheques to impersonal payees, such as Salaries and Wages, Petty Cash, etc., are sometimes crossed by mistake, and have consequently to be re-opened.

Object of Crossing a Cheque.—The object of crossing a cheque is to prevent its being cashed over the counter by any one who might accidentally or fraudulently obtain possession of it. A crossed cheque will not be paid to anyone except a banker ; and if the banker's name is added in the crossing, then payment will be made only to that particular banker. The practice of crossing originatec as a Clearing House custom, and was eventually recognised by law.

Specimens of Crossings.—The following are examples of some of the commonest crossings :—

GENERAL CROSSINGS

1

2

& Co.

3

Not Negotiable.

4

Not Negotiable.
& Co.

5

Under Ten Pounds.

& Co.

6

& Co.
A/c Payee Only

7

Not Negotiable.

& Co.
Under Twenty Pounds.

8

Not Negotiable.

& Co.
A/c Payee Only.

SPECIAL CROSSINGS

9

Lloyds Bank Ltd.

10

Not Negotiable.

Lloyds Bank Ltd.

11

Not Negotiable.

Lloyds Bank Ltd.
Under Twenty Pounds.

12

Not Negotiable.

Lloyds Bank Ltd.
A/c Payee Only.

Not Negotiable.—A cheque being a negotiable instrument, any *bona fide* holder can retain it, even though the cheque has been lost or stolen. To protect the owner against damage by loss or theft, the words " not negotiable " may be written on the cheque by the drawer or by any holder. The addition of these words does not, therefore, prevent the further transfer of the cheque; but by section 81 of the Act:—

> Where a person takes a crossed cheque which bears on it the words " not negotiable," he shall not have and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had.

If the cheque has been found or stolen and passed on to another person, the holder's title is defective, even if he has given value for it; he can legally be made to restore the cheque to its rightful owner.

It should be noted that the phrase " not negotiable " applies, legally, only to crossed cheques Other documents could, of course, be marked " not negotiable," but it would have no legal effect.

Account Payee Only.—Bankers have been in the habit of ignoring this crossing, because it was not found, or provided for, in the Bills of Exchange Act. But custom seems likely to prevail, and, as with other cases of the *lex mercatoria*, eventually to graft itself upon the law. The object of it is still further to protect the drawer against damage should the cheque be lost or stolen. It constitutes a distinct notice to a receiving banker that the drawer desires the cheque to be placed to the credit of a certain account. And if a banker disregards this direction, he renders himself liable to an action for " negligence."

Indorsement of Cheques.—Indorsing is the signing of the payee's name on the back (Latin, *dorsum* = back) of the cheque, though apparently it is quite legal if the payee signs his name on the front of the cheque. Bearer cheques do not require indorsing, though indorsements are sometimes obtained, in order to make the transferor a party to the cheque. All order cheques, however, must be indorsed. The payee should sign his name exactly as it is on the face of the cheque; but such courtesy titles as Mr., Mrs., Miss, Capt., Dr., Esq., etc., may be omitted. Where in a cheque the payee's name has been misspelt, the payee is allowed by the Bills of Exchange Act to indorse himself as so described, and to add, if he thinks fit, his proper signature, and a bank would require the indorsement to be exactly as stated on the face of the cheque.

Indorsements in pencil are quite legal, but would not be accepted by the banker owing to the risk of their becoming illegible. Indorsements made by means of a rubber stamp would not be passed until they had been verified by the banker.

Indorsements per pro.—Indorsements are sometimes made *per procuration*, thus:—

per pro. (or *p.p.*) John Smith,
Thomas Atkins.

The full signature is necessary; the initials "T. A." would not be passed by the banker. Indorsements *per pro.* are not accepted on dividend warrants. Bankers are entitled to enquire as to the extent of the power of procuration, and may ask for confirmation of such indorsements.

Examples of Proper Indorsements.—The following examples of indorsements necessary in particular cases should be carefully noted:—

PAYEE.	INDORSEMENT.
F. Brown (*an illiterate person*)	his F. X Brown mark Witness: John Thomas, 5 Romany Road, Southampset
Robert Bromfield	Robert Bromfield, or R. Bromfield (*The full Christian name is not important so long as the initials agree*)
—. Rufus, Esq.	F. (*or other initial*) Rufus (*The mere surname is not a signature*)
Mrs. Smith	Mary (*or other Christian name*) Smith, *or* M. Smith
Mrs. Henry Rogers	Alice Rogers, wife of Henry Rogers
Miss Dorothy Higgins (*now married*)	Dorothy Retrop *or* D. Retrop, *née* Higgins
The Misses Green	Florence Green Agnes Green (*both must sign*)
Mr. P. Brown (*mis-spelling for Browne*)	P. Brown P. Browne
Arthur Roberts, Senior	Arthur Roberts, *or* A. Roberts, *or* A. Roberts, Senior (*Some banks require the word "Senior"*)

PAYEE.	INDORSEMENT.
Messrs. Smith	A. & B. Smith, *or* Smith & Son, *or* Smith Bros., *or* Smiths (*The indorsement must indicate the plural*)
The A.B.C. Co., Ltd.	The A.B.C. Co., Ltd., *or* Per pro. The A.B.C. Co., Ltd., *or* For and on Behalf of The A.B.C. Co., Ltd., *or* On Account of The A.B.C. Co., Ltd., *or* For the A.B.C. Co., Ltd., B. Lilley, Secretary (*The last indorsement is the most usual*)
Y. Young (*now deceased*)	For Y. Young, A. Wallis, (*Executor* (or *Administrator*) *or* For Self & Co., *Executors* (or *Administrators*) of Y. Young, A. Wallis (ONE *executor's signature is sufficient*)
The Trustees of Y. Young	For Y. Young, A. Wallis, F. Notley, A. Wade G. Sowerby, } *Trustees* (ALL *the trustees must sign*)
Self	Signature of Drawer
The X Y Z Co., Ltd. (*now in liquidation*)	For the X Y Z Co., Ltd. (*in liquidation*) Arthur Brown, *Liquidator*
Messrs. Brown & Johnson, Ltd.	For Brown & Johnson, Ltd. A. Clarke, *Cashier* (*Authorised to indorse cheques*)
Managers of Cramem School	For the Managers of Cramem School, Arthur Donne, *Chairman* *or* Arthur Donne, Alfred Cook, } *Managers of Cramem School.*

PAYEE.	INDORSEMENT.
Capt. W. Smith	W. Smith, *or* W. Smith, Capt. *(Not Capt. W. Smith, as this would not be a signature)*
Treasurer of the Links Golf Club, *or* The Links Golf Club	For the Links Golf Club, Frederick Player, *Treasurer*

Revocation of Banker's Authority to Pay.—The duty and authority of a banker to pay cheques drawn on him by his customer are determined by :—

(*a*) Countermand of payment ;
(*b*) Notice of the customer's death ;
(*c*) Notice of his insanity, legally declared ;
(*d*) Notice of an act of bankruptcy on the part of the customer ;
(*e*) Receipt of a garnishee order.

Want of funds, or any irregularity in the drawing or indorsing of the cheque, will also cause a banker to stop payment.

Cheque not Legal Tender.—A cheque, it should be noted, is not legal tender. The only paper money that is legal tender in England and Wales are Bank of England Notes, and Treasury Notes for £1 and 10s. respectively.

Property in Cheques.—A paid cheque is, legally, the property of the drawer. Some banks return the paid cheques in the pocket of the pass book ; others do not.

Stamp on Foreign Cheques.—A foreign cheque, *i.e.*, one received from abroad, requires a twopenny stamp affixed to it, before it can be dealt with in this country.

Forgery.—A forged cheque is one on which the name of the payee or the amount of the cheque has been falsified, or on which the signature of the drawer is not genuine. A banker is liable for any loss caused by his paying a cheque on which the signature of the drawer has been forged ; but he is not liable for any loss caused by his paying a cheque bearing a forged indorsement.

Receipt Form on Cheques.—In modern business the practice has grown up of having receipt forms printed at the foot or on the back of cheques. The signature on the receipt is intended to act also as an indorsement ; but many bankers require an indorsement as well, not deeming the receipt a sufficient discharge of the cheque. Cheques for salaries should bear a notification to that effect so that the bankers may know they are exempt from receipt stamp duty.

Cheques sent through the Post.—If the drawer makes the post office his agent, he must bear any loss arising from the miscarriage of the cheque. If, however, the payee has requested a cheque to be

sent by post, the post office becomes the agent of the payee. who is therefore liable for any loss.

Cheque Stamp and Cheque Books.—A piece of ordinary writing paper with a twopenny stamp affixed, ordering a banker to pay money, is legally a "cheque." There is an erroneous idea abroad that anyone can affix the stamp. The stamp, however, must be affixed by the drawer, and must be properly cancelled by him. Stamping by a subsequent party does not remedy the defect. The banker may affix a stamp and cancel it, and may deduct the twopence from the amount payable, or debit his customer's account. The other parties, however, are still liable to the penalty of £10 for issuing or dealing with an unstamped document.

The usual practice of bankers is to supply their customers with books of specially printed and numbered cheque forms. The object of this is the prevention of forgery. Each cheque, being an order to pay, must bear a 2d. stamp. Bankers make no charge for the book of forms, but debit their customers with the cost of the impressed revenue stamps. Fresh cheque books are obtained by the customer filling up and presenting the bank's printed application forms.

Dishonoured Cheques.—A dishonoured cheque is one which a banker, for some reason or other, has refused to pay on presentation. Such cheques generally have some explanatory mark or phrase written on them, as follows :—

N/A = No assets.
N/E = No effects.
R/D = Refer to drawer
N/S = Not sufficient (funds).
I/F = Insufficient funds.
Indorsement irregular.
Words and figures differ.
Drawer's signature differs (*i.e.*, from that in Bank's signature book).
Alterations require drawer's signature.
Drawer deceased.
Receipt (*i.e.*, on cheque) requires stamp.
Account closed.
Cheque mutilated.
Effects not cleared. Present again.
Post-dated.
Payment stopped, or Orders not to pay.

Dishonoured cheques may of course be noted, and those bearing foreign indorsements may be protested.

Lost Cheque.—Where a cheque has been lost, the holder can compel the drawer to give him a new cheque, but must give security to the drawer, if required, to indemnify him in case the lost cheque should be found and negotiated. The cheque should be marked "Duplicate." and the paying banker instructed to pay it.

Points of Difference Between Cheques and Bills.—Although a cheque is *legally* a bill of exchange, the following differences exist:—

(1) A bill requires acceptance. A cheque is never accepted by a banker. The acceptor of a bill is liable to the holder for refusing payment of it.

(2) The drawer of a bill is discharged from liability by delay in presenting it for payment; the drawer of a cheque is not.

(3) Notice of dishonour is necessary in the case of a bill not being met, but not in the case of a cheque.

QUESTIONS ON CHAPTER III

A

1. What is the legal definition of a bill of exchange?
2. How many kinds of bills are there? Distinguish them.
3. How many parties are there to a bill? Explain them, and distinguish between immediate and remote parties.
4. A B of London, draws, on 1st April, a bill on C D of Liverpool for £336 16s. 11d., payable 3 m/d. C D accepts and makes the bill payable at the Royal Bank, Liverpool. Write out the bill, mark the stamp duty, and show C D's acceptance.
5. State briefly some of the advantages of bills of exchange.
6. Distinguish between (*a*) trade bill and accommodation bill; (*b*) draft and acceptance; (*c*) drawee and acceptor; (*d*) long bills and short bills.
7. What are days of grace? Are all bills subject to days of grace? How can days of grace be avoided?
8. Write down the stamp duty and due dates of the following bills—
   (*a*) £4 drawn 31st Jan. @ 1 m/d.
   (*b*) £100 drawn 15th Jan. on demand.
   (*c*) £200 drawn 16th Jan. @ 3 d/s.
   (*d*) £8 16s. 8d. drawn 28th Feb. @ 1 m/d.
   (*e*) £39 19s. 11d. drawn 31st March @ 3 m/d.
   (*f*) £62 19s. 6d. drawn 31st Dec. @ 2 m/d.
   (*g*) £84 2s. 9d. drawn 31st Aug. @ 1 m/d.
   (*h*) £299 drawn 29th Feb. @ 1 m/d, with interest at 5%.
   (*i*) £299 drawn 29th Feb. @ 1 m/d, with £5 interest.
9. A trader has bills falling due on the following days (including days of grace):—
   (*a*) New Year's Day; (*b*) Good Friday; (*c*) Easter Sunday; (*d*) Easter Monday; (*e*) Whit-Monday; (*f*) August Bank Holiday; (*g*) Sunday after a special Saturday Bank Holiday; (*h*) Christmas Day; (*i*) Boxing Day.

When are the bills actually payable in each case?

10. When is a bill payable:—
    (*a*) On demand;
    (*b*) At a fixed or determinable future time?

B

1. Is it necessary (*a*) for the drawer of a bill to insert the phrase "for value received," (*b*) for the acceptor of a bill to write the word "accepted," (*c*) for an indorser to write the word "indorsed," or (*d*) for an acceptor for honour to write the phrase "accepted for honour"? Give reasons for your answer in each case.

2. What are negotiable instruments? Name some. What are their three distinguishing characteristics?

3. How are bills of exchange negotiated? How can negotiation be restricted (*a*) in drawing the bill, (*b*) in indorsing the bill?

4. What is meant by the acceptance of a bill? Explain (*a*) general acceptance, (*b*) conditional acceptance, (*c*) partial acceptance, (*d*) local acceptance. In what other ways can the acceptance be qualified? Is a holder bound to take a qualified acceptance?

5. Explain the following:—Domicile, indorser, allonge, acceptor for honour, referee in case of need.

6. What is meant by indorsing a bill of exchange? When is it necessary, and when not? The following indorsements appear on some trade bills:—

(*a*) Pay A B.
(*b*) Pay C D or order, A B.
(*c*) Sans Recours, G H.
(*d*) Pay E F only, C D.
(*e*) Pay C D, notice of dishonour waived, A B.

What kind of indorsements would you respectively call these?

7. What two things are necessary in order to constitute an acceptance a valid one?

8. When is presentment for acceptance necessary, and when is it excused?

9. What is meant by noting and protest of a bill of exchange? Is it always necessary?

10. Explain the terms: notary public, noting charges, noting ticket. What stamp is required on a protest? Can a householder draw up a protest?

C

1. What is meant by presentment for payment? When is it necessary, and when not? When is delay in presentment excused?

2. When is a bill dishonoured, (*a*) by non-acceptance, (*b*) by non-payment?

3. What is meant by notice of dishonour? When is it necessary, and when is it excused?

4. Explain the terms: holder in due course, recourse, damages on dishonour, payment for honour *supra* protest.

5. Bills are drawn as under:—

(*a*) Payable in three months provided the goods turn out satisfactory.
(*b*) Payable one month after the drawer's marriage (the marriage actually takes place).
(*c*) Payable as soon as the ship reaches the port of Liverpool (the ship duly arrives in port).
(*d*) Payable 10 days after a certain person's death.
(*e*) Payable out of a particular fund.

State, with reasons in each case, whether the above bills are valid or not.

6. How do the following affect the parties to a bill of exchange:—

(*a*) Material alterations, (*b*) forgery, (*c*) non-delivery of bill, (*d*) loss of bill?

7. In what ways can a bill be discharged?

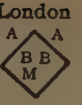
8. What are the legal liabilities respectively of (*a*) drawer, (*b*) acceptor, (*c*) indorser, (*d*) acceptor for honour?

9. Explain the method of procedure with regard to accommodation bills. What is the legal liability of an accommodation party?

10. Explain the meaning of fictitious payee. How does the absence of a date affect a bill? Does any mention of interest affect a bill?

D

1. Define a foreign bill. Name some of the principal differences between inland and foreign bills. Distinguish between "clean" and "documentary" bills.

2. On 15th March, B. Brown of Melbourne, drew on A. Archer of London at 60 d/s for £275, on account of 36 bales of Wool marked 

shipped per ss. *Retrop*, and attached the usual documents which were to be surrendered on acceptance of bill. Write out the bill in each of its three vias.

3. Explain the following terms :—Usance, sola, letter of hypothecation, re-exchange, first of exchange, documents attached, protest, via.

4. A bill is drawn in Germany, accepted in France, and paid in England. To what parts of the bill would the different laws apply ?

5. Are days of grace allowed on foreign bills ? Explain the difference between the old style of dating and the new style, and how such difference is dealt with when drawing bills.

6. Why are foreign bills often drawn in the home currency ? When the amount of a foreign bill is not expressed in sterling, how is its value determined for the purpose of (*a*) stamp duty, and (*b*) payment ?

7. Why are foreign bills drawn " after sight " ? How does this affect the acceptance of a long bill ? Give an example of a foreign bill drawn " after sight " and duly accepted.

8. " Foreign bills, unless drawn on a near country, are not sent for acceptance and return." Explain this, and the procedure with regard to such bills.

9. Are foreign bills liable to stamp duty ? If so, what are the rates, and when must the stamp be affixed ? What peculiarity is there with respect to bills drawn in the Channel Islands and the Isle of Man ?

10. Give an example of a documentary bill. Explain the object of such bills, and the usual method of procedure with regard to them.

E.

1. What is the statutory definition of a Promissory Note ? For what purpose are such notes used, and in what respects do they (*a*) resemble, (*b*) differ from, bills of exchange ?

2. What stamp duty is required on promissory notes, and how is it denoted ? How many parties are there to a note, and who are they ?

3. How many kinds of notes are there ? Give an example of each.

4. What is (*a*) a joint promissory note, and (*b*) a joint and several promissory note ? Give an example of each. Why are the latter preferable ?

5. When is a note payable on demand ? Must a note be presented for payment ? Can a valid note contain any reference to a collateral security ?

6. What is the legal liability of the maker of a note ? How far does the Bills of Exchange Act apply to promissory notes ? To whom do the drawer and acceptor of a note correspond in a bill of exchange ?

7. What is a Bank Post Bill ? Give an example.

8. Explain the origin of bank post bills. What is the procedure with respect to them ? How do you account for their falling into disuse ?

9. What are Bank Notes ? For what amounts may they be issued, and by whom ? Suppose a bank note gets stolen, and is afterwards traced to a *bonâ fide* holder for value, what is his position ?

10. What are Bank Drafts, and for what purpose are they used ?

11. What is an I.O.U. ? Give an example. Is it legal evidence of debt ?

F.

1. What is the statutory definition of a cheque ? Give a specimen.

2. Explain the following terms :—Bearer cheque, order cheque, counterfoil, stale cheque, post-dated cheque, fictitious payee.

3. What is a crossed cheque ? What is object of the crossing ? Give examples of (*a*) general crossings, (*b*) special crossings, and explain the

following phrases sometimes added to crossings: "not negotiable," "A/c payee only."

4. What is meant by indorsing a cheque, and when is it (*a*) necessary (*b*) not necessary? What is a "per pro." indorsement? Is it always accepted by bankers?

5. What indorsements are required on the following:—

(*a*) Cheque payable to an illiterate person;

(*b*) Cheque payable to a deceased person who has (1) died intestate, (2) appointed an executor, (3) left his estate in the hands of trustees;

(*c*) Cheque payable to a married lady (1) in her maiden name, (2) in her husband's name;

(*d*) Cheque payable to a person whose name is misspelt;

(*e*) Cheque payable to the holder of an office;

(*f*) Cheque payable to a limited company (1) in active business, (2) in liquidation;

(*g*) Cheques payable to (1) Self, (2) — Cook, Esq., (3) Dr. B. Brown, (4) Messrs. Green, (5) Wages or Order, (6) Wages or Bearer, (7) Mr. Brownley, (8) Mrs. Finch, (9) The Misses Donnington, (10) The Aristocratic Tennis Club?

6. What legal and other circumstances revoke a banker's duty and authority to pay his customer's cheques?

7. What is a forged cheque? How far is a banker liable on it? Can alterations be made on a cheque?

8. "Bankers usually mark returned cheques." Write down some of the most usual markings and explain briefly what they signify.

9. Is a cheque legal tender? Give reasons for your answer. To whom do paid cheques belong, and what is the practice of bankers therewith?

10. What is the position of the respective parties thereto if a cheque is lost, (1) accidentally, (2) by miscarriage in the post?

11. What is a cheque book? Must a cheque always be drawn on the banker's printed form?

EXERCISE III

1. Enter the following in the Journal and Cash Book:—

(1) R. Red handed us a P/N for £30 lent him.

(2) Accepted draft drawn on us at 3 m/d for £200 by Francis & Co. in favour of D. Devon.

(3) Gave Blue & Co. a bill at 2 m/d for £95.

(4) Bought goods, £150, from Sharp & Co. for 2 months' bill less 5 % discount.

(5) Handed Ridler & Son our acceptance at 3 m/d for £90.

(6) Received H. Hughes' acceptance for £120 from S. Straker.

(7) Discounted N. Notley's acceptance for £120, discount charged £1 10s.

(8) Received bill, dated 1st Jan., at 10 d/d for £120 from M. Monk.

(9) Drew on Green & Co. for £190, allowing them discount £10.

(10) Sent N. Norfolk sight draft for £125.

(11) Drew on J. Rowell at 60 d/s for £420. Indorsed first of exchange: "Pay to the order of M. Goodman," and forwarded it to the latter.

(12) Henry & Co'.s P/N for £40 duly taken up.

(13) Sold goods, £120, to B. Blunt for 2 months' bill, less 2½ % discount.

(14) Sold goods for £150 to York & Son, and received in payment our own acceptance to Bull & Son for £150 due to-day.

(15) Our P/N to M. Martin for £120 redeemed to-day.

(16) Discounted G. Graham's acceptance for £150, due 3 months hence, with Sheffield, Sons & Co., bill brokers, discount rate 3¾ per cent.

(17) Sent Perrier Frères, Paris, 7 days' draft for £100.

(18) Accepted Dark & Co.'s draft for £285, being allowed discount £15.

(19) Received Lambert & Co.'s bill at 3 m/d for £121 10s., including £1 10s. interest.
(20) Ridler & Son forward us their acceptance at 2 m/d for £200.
(21) Paid off my acceptance to Essex & Sons, £150, under rebate £1 17s. 6d.
(22) Received of H. Harrison, Raby & Sons' draft on us for £300 due 2 months hence. Credited them with £297 10s.
(23) K. Kent's acceptance for £150 duly met to-day.
(24) Sent L. Lucas's acceptance for £100 to T. Thrale.
(25) Borrowed of J. Jenkins £80, and gave him a P/N at 6 m/d for £82.
(26) Indorsed and forwarded to Catchpool & Son, Appleton & Co.'s acceptance to us for £600, due in 4 months' time, for which they credited us with £590.
(27) Our acceptance to L. Luther for £95 duly honoured.
(28) Paid bills in hand into Bank for collection, £150 16s. 8d.
(29) L. Light drew on us at 2 m/d for £71 15s. 0d., including £1 15s. interest.
(30) Samuel & Co. retired their acceptance for £120 under rebate £1 10s.
(31) Received sight draft for £150 from Surrey & Co.
(32) Chardenal et Cie forwarded us sight draft for 8,000 francs, which our bankers cashed at the rate of 25.20 francs to the £.
(33) Remitted F. Schmidt sight draft for 5,000 marks, which we purchased at the rate of 20.35 marks to the £.

2. Record the following in Journal and Cash Book :—
(1) Blue & Black's acceptance for £200 renewed for 3 months, plus interest at 5 % and bill stamp.
(2) G. Gulliver's acceptance for £450, due this day, returned dishonoured. Noting charges, 5s.
(3) Wilson & Jones retire their acceptance for £420 by cheque £120, and a new bill at 1 m/d for the balance, interest at 5 %, together with the bill stamp, being paid in cash forthwith.
(4) L. Lambe's acceptance for £460, due this day, notified by our creditors (Charles & Son) as being dishonoured, noting charges paid by them, 5s. 6d. Withdrew same in exchange for our cheque.
(5) Retired our acceptance to Brockwell & Haigh for £630 by cheque £230, and a new bill at 2 m/d with interest at 4 % for the balance, being charged also with bill stamp.
(6) Our acceptance to Locke & Co. for £300 renewed for 4 months, plus interest at 3½ % and bill stamp.
(7) Our own acceptance to Dawson Bros. for £345 dishonoured (through omitting to instruct bankers to pay). Dawson Bros. send us debit note for £345 10s. 8d., including noting expenses. We settle same by cheque.
(8) Needham & Co.'s acceptance for £425, due this day, returned by bank dishonoured, with noting charges, 4s., and expenses 3s. 6d.
(9) Frame & Son's acceptance for £1,055, due this day, returned by bank dishonoured, with noting expenses £1 2s. 3d. Renewed same for 5 months with interest at 6 %, noting expenses, interest, and bill stamp being paid in cash forthwith.

3. Write up in the books of both parties, the Ledger accounts (including Cash), for the following transactions in bills :—
(*a*) On 1st Jan. S. Silverman accepts a 3 months' bill for £125, drawn on him by G. Goldstein for the latter's benefit. Goldstein discounts the bill at the rate of 3½ %, and at maturity forwards Silverman a cheque with which to meet the bill.
(*b*) On 1st March P. Paterson and I. Ingram draw on one another at 3 months for £135 for their mutual convenience. They discount each others' bills at the rate of 4 %, and, at maturity, each meets his own acceptance.

(*c*) On 1st Feb. H. Hooker accepts a three months' bill for £115 drawn on him by E. Evans for their mutual accommodation. The bill is then discounted by Evans at the rate of 3½ %, and half the proceeds handed to Hooker. At maturity Evans sends a cheque to Hooker, who then pays the bill.

4. Darlow & Walsh are the acceptors of a bill of 4 months date for £659 14s. 8d., due on the 24th January. A few days before it matured. Darlow & Walsh found they could not meet it and wrote to the drawers, Messrs. Earle & Creasey, requesting them to renew the bill for 3 months, adding interest at 5% per annum. The drawers (Earle & Creasey) expressed their willingness to do so conditionally upon Darlow & Walsh lodging security with them for the amount of the renewed bill. Messrs. Darlow & Walsh offered as security five customers' bills, viz. :—

(1) H. G. Bourner & Co.'s bill, £209 11s. 6d., due 14th Feb.
(2) Neville & Co.'s bill, £173 4s. 9d., due 26th Feb.
(3) James Hordarn & Co.'s bill, £89 14s. 8d., due 25th Mar.
(4) George Blakey & Co.'s bill, £82 16s. 0d., due 19th April.
(5) Smith, Wilks & Co.'s bill, £112 12s. 9d., due 26th April.

Each of the above five bills was discounted by Earle & Creasey's bankers, and Darlow & Walsh's renewed bill was paid into the bank one month after its acceptance. Bills 1, 2, and 4 were duly honoured Bill 3 was dishonoured and returned to Earle & Creasey, who drew a cheque for its amount, plus 7s. 6d., noting expenses. Darlow & Walsh, on being called upon, made good this amount ten days later.

Bill 5 reached maturity the same day as Darlow & Walsh's renewed bill, and both were dishonoured.

(*a*) Draw the renewed bill, adding £1 8s. 11d. for stamp and other expenses, also 5 % interest for the term of the bill's currency.

(*b*) Show Earle & Creasey's Journal entries.

(*c*) Show Darlow & Walsh's Account as it appears in Earle & Creasey's Ledger.—(*West Riding of Yorkshire.*)

5. (*a*) A bill for £105 is drawn at 6 months from the 1st Oct., by Smith on Rhodes and accepted by the latter payable at Parr's Bank. What stamp duty does this bill require, and when is it due for payment ?

(*b*) On the 11th Dec., Smith discounts the bill with Hirst, and receives £100 cash.

(*c*) The bill is dishonoured on maturity, but is taken up by Smith on the 7th April.

Show by means of the Journal the necessary entries to record the above transactions—(*a*), (*b*), and (*c*)—in Smith's books.—(*National Union of Teachers.*)

6. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a bill of exchange at 3 months for £600, dated 1st Jan. Jones discounts this bill immediately at his bankers, the rate of discount being 5 %, and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a bill at 3 months on Jones for £300. This he discounts at his bankers at 5 % and hands half the proceeds to Jones. Brown becomes a bankrupt on 31st March, and a first and final dividend of 5s. in the £ is paid on his estate on 30th June.

Write up Brown's account in Jones' books. Assume, in each case, that one half of the charge for discounting the bill is chargeable to Brown and one half to Jones.—(*London Chamber of Commerce.*)

7. You are preparing the Balance Sheet of a Limited Company of which

you are the chief accountant, and find that there are bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10s. in the £ on the £1,000. How would you deal with these bills under discount, and how should they appear in the company's published accounts? —(*London Chamber of Commerce.*)

8. On 1st Jan. A owes B £6,000, for which B receives two acceptances from A, one for £2,000 payable in 2 months, the other for £4,000 payable in 4 months, in each case from 1st. Jan. B duly discounts both these acceptances with his bankers on 3rd Jan. at 4 %.

Before the first bill becomes due A requests B to assist him in taking it up by providing him with £1,000 in cash, and drawing a third bill on A for that amount at 3 months from the due date of the first bill, plus interest at 5 % per annum; B agrees to this proposal and advances the money, discounting the bill with his bankers at 4 %.

A week before the second bill for £4,000 falls due A again asks B to assist him to the extent of £2,500. B., however, is not in a position to do this, and, as his bankers will not discount any more of A's acceptances, he arranges with A to draw on him (B) two bills for £1,131 16s. 8d. and £1,408 3s. 4d. at 2 months and 3 months respectively from the due date of the £4,000 bill. B duly accepts these two bills and remits them to A, who discounts them with his bankers at 4 %, and, assisted by the proceeds, duly meets the £4,000 bill. B also meets his two bills on maturity. On 7th June A becomes bankrupt, leaving his third bill unpaid. Make the necessary entries in B's books to give effect to the above transactions.—(*London Chamber of Commerce.*)

9. From the following particulars compile detailed Bills Receivable and Payable Books, and post same to proper Ledger accounts:—

(N.B.—All our acceptances were made payable at our bankers, Royal Bank.)

Mar. 2. Drew on Green & Golding at 1 m/d for £152, allowing them discount £8. Bill No. 129.
„ 3. Received Green & Golding's acceptance, payable at the Safe Bank, City.
„ 3. Accepted Philips & Son's draft of the 2nd inst. at 2 m/d in favour of Ogden & Co., £237 16s. 4d. Bill No. 95.
„ 9. Received of Ellis & Co., J. Thomson's acceptance to them for £85 16s. 10d., dated 9th Jan., at 2 m/d, payable at Union Bank, Holborn.
„ 12. Gave Lonsdale & Sons our acceptance, dated 11th inst., at 10 d/d for £125.
„ 12. Received Pavey & Lord's acceptance of our draft of yesterday, at 3 m/d for £120 12s. 6d., payable at Bank of England, Liverpool.
„ 16. Allott, Jones & Co. forward me B. Bunker's acceptance to them for £185, payable at Midland Bank. Bill drawn 15th Feb. at 60 d/s, acceptance being dated 28th Feb.
„ 21. Received Sowerby & Wade's draft on us of the 19th inst. at 1 m/d, in favour of Lewry & Son for £166 1s. 8d., discount allowed, £8 14s. 10d. Returned same duly accepted.
„ 22. Drew on Bayes & Kerry at 4 m/d, for £214 9s. 3d., allowing discount, £11 5s. 9d.

Mar. 23. Received Bayes & Kerry's acceptance, payable at Parr's Bank, City.
„ 27. Received Green & Noel's draft on us of yesterday's date for £299 15s. at 3 m/d, with interest at 5 %. Returned same duly accepted.
„ 30. Returned, duly accepted, T. Nicholson's draft on us, dated 29th inst. at 4 m/d, for £66 13s. 8d. in favour of Gardner & Isbister.
„ 31. B. Bearon forwards us L. Levar's acceptance to H. Moore for £116 2s. 6d. Bill dated 29th Jan. at 2 m/d, and payable at Joint Stock Bank, Leeds.
„ „ Accepted G. Graham's draft on us, dated 21st Mar. at 90 d/s, for £134 13s. 3d., discount allowed £7 1s. 9d.

Bill No. 130 was duly met. No. 132 was discounted. No. 134 was dishonoured. No. 131 was indorsed over to Mandrakes Ltd. on the 11th of June. Acceptance No. 96 was duly honoured, and No. 95 was renewed on 4th May.

10. What is meant by "renewing" a bill? Give, in both parties' books in each case, the Journal entries for the following:—
(*a*) Welt & Dray renew a bill for £126 15s. 8d. for their customer, F. Frost, for 2½ months with interest at 3¾ %, plus bill stamp.
(*b*) S. Storm, a creditor of Jenkins & Co., renews a bill for £226 14s. 11d. for 3½ months, with interest at 4¾ %, plus bill stamp.

11. T. Talbot receives his customer's acceptance for £120. State the different ways in which he can deal with this bill, and give the Journal and Cash Book entries for each way. Assuming the bill to be dishonoured in each case, give the necessary Journal and Cash Book entries.

12. B. Bannister agreed on 1st Jan. to purchase S. Sparks's business for £4,020, to pay him £2,020 in cash, and to give him four bills, at 3, 6, 9 and 12 months respectively, for £500 each, plus interest at 5 %. The agreement was duly carried out. It was also agreed that any of the bills might be retired at any time under a rebate of 6 %. On the 31st Jan. B. Bannister took advantage of this concession and paid off the fourth bill. He also drew up a Profit and Loss Account at end of Jan. Show the Journal and Cash Book entries necessary to record the above transactions, and also the apportionments necessary at the end of the month.

REVISION EXERCISE III

1. Give a brief outline of the general characteristics of Account-keeping, with special reference to such classes of business with which you may be acquainted.—(*London Chamber of Commerce.*)

2. In order to guard against irregularities in the matter of cash, what special rule would you lay down as to dealing with Receipts and Payments in a City House, where the transactions were both large and numerous? Sketch out a form of Cash Book where there would not only be a saving of labour, but where there would be a minimum of risk from improper dealing with cash by an employee. Sketch also a form of Petty Cash Book, and state what class of expenditure you would have entered therein, and in what way, and to what extent, such Petty Cash Book would be subsidiary to the General Cash Book.—(*London Chamber of Commerce.*)

3. Referring to the preceding question, and having prepared the forms asked for, enter therein the following Receipts and Payments :—

Jan. 1.	To John Smith, monthly a/c, Dis. 59s.			£147	10	–			
	By William Jones, Cheque, Dis. 88s.						£215	12	–
	By Petty Cashier, Cheque						20	–	–
„ 2.	To F. Page, Balance of a/c			73	6	8			
	By Bills Payable Frost's Dft.			146	7	8			
	„ Office Wages, 1 month						52	6	8
	„ Carriage, Pickford's a/c						3	5	–
	„ Postage and Bill Stamps						1	17	6
	„ Quarter Year's Gas a/c						2	14	9
	„ Office Cleaning and Caretaker						1	17	8
	„ City Bank, paid in						220	16	8

—(*London Chamber of Commerce.*)

4. What is a Capital Account, and what does it embrace? Explain the difference between Gross and Net Profit, and between a Trading Account (or Working Account) and a Profit and Loss Account.—(*London Chamber of Commerce.*)

5. Messrs. Dodger & Co., Colliery Proprietors, Burnley, sold to Messrs. Ibbetson & Co., of London, in waggons at Burnley, 120 tons of best House Coal, at 8s. 9d. per ton, with a charge of 9d. per ton for waggon hire. The terms were cash, but Ibbetson, not finding it convenient to pay cash down, agreed to accept Dodger's draft at 3 months, dated 1st March, for the amount of invoice, plus 2 % commission and 5 % discount. The draft was duly accepted; but, before its maturity, Ibbetson, not having sold the coal, arranged to have the draft withdrawn, to pay in cash £20 on the 1st June, and to accept a draft at 2 months for the balance, plus commission and discount at the rate charges on the former draft. This was duly carried out, the £20 was paid, and the fresh draft met at its maturity on the 4th August.

Prepare the Day Book, Journal, and Cash Book entries, giving effect to the transaction, and post to a Ledger Account as representing Messrs. Dodger & Co.—(*London Chamber of Commerce.*)

6. A. F. Walters and J. B. Smith are in partnership as pipe manufacturers; they also rent and work a retail shop. Profits or losses are shared as follows: —A. F. Walters two-thirds, J. B. Smith one-third. The shop manager sends in weekly returns of all transactions, and these returns are duly incorporated in the books of the head office. You are required to prepare a Trading and Profit and Loss Account for the year ended 28th Feb., and a Balance Sheet as on that date; a separate Trading Account is also required showing the working results of the shop.

The following is a list of the Ledger Balances as extracted by the head clerk of the firm as on 28th Feb. :—

	£		£
A. F. Walters, Capital A/c	6,200	Rent, Rates, Taxes, Light and Insurance (shop)	423
J. B. Smith „ „	3,500	Stock on hand, 1st March (factory)	3,828
Plant and Machinery	3,280	„ „ (shop)	747
Fixtures and Fittings (factory)	620	Cash Purchases (shop)	62
Purchases	11,780	Sundry Creditors	2,428
Sales (factory)	19,353	Travellers' Commission (factory)	152
„ (shop)	7,538	Office Salaries (factory)	280
Manufacturing Wages	6,433	Office Expenses, Postage, etc. (factory)	395
„ Expenses	891		
Rent, Rates, Taxes, Light and Insurance (factory)	360		

	£		£
Law Expenses and Audit Fee (factory)	41	Bills Receivable	2,000
Bad Debts written off (factory)	8	Bills Payable	78
Discount A/c, Credit Balance (factory)	282	Salaries of Manager and Assistant at shop	266
Reserve for Bad Debts as on 1st March	74	A. F. Walters (Drawings A/c)	1,212
Sundry Debtors	2,520	J. B. Smith ,,	606
Furniture, Fixtures, and Fittings (shop)	980	Cash at Bank	2,512
		,, in hand (factory)	7
		,, ,, (shop)	50

Before preparing the annual accounts the following adjustments are necessary :—

Interest is to be credited upon the Capital Accounts at 5 %.

Reserves for :—Rent, Rates, etc., Account (factory) for rent accrued due 28th Feb., £78 ; Rent, Rates, etc., Account (shop) two months' rent due to 28th Feb. (the annual rent of the shop is £360) ; Audit fee, £36.

The Manager of the shop is entitled, under his agreement, to a commission of 2 % on the gross profit realised by the shop.

Plant and machinery are to be depreciated at 10 %. Fixtures and fittings are to be depreciated at 5 %.

Provision for Bad and Doubtful Debts is to be made at 2½ %.

The stock on hand as on 28th Feb. was valued as follows :—

Factory	£3,105
Shop	470

The goods supplied by the factory to the shop during the year were priced out at £4,199 cost price.—(*London Chamber of Commerce.*)

CHAPTER IV

ACCOUNTS CURRENT, AVERAGE DUE DATE

Definition.—An account current is a statement in Dr. and Cr. form of the various transactions that have taken place between two merchants, or between a principal and his agent. The transactions are set out in chronological order, interest being charged and allowed thereon at an agreed rate or rates per cent. per annum.

The Party Rendering the Account.—Strictly speaking, the account current is rendered by the party last mentioned in the heading. Thus, "*B. Bennett in Account Current with G. Green*" signifies that Green is rendering the account to Bennett. The account current is really a copy of B. Bennett's account in Green's Ledger. The transactions are therefore viewed solely from Green's point of view. Green debits Bennett with goods, cash, and bills, sent or paid to him or on his account, and credits Bennett with goods, cash, and bills received from him or on his account.

Calculation of Days.—In reckoning the number of days for interest, it is not usual to make them both inclusive. Only one end day or "extreme" is counted, viz., the day to which the account is made up, the date of the transaction being omitted. When dealing with foreign accounts current, it must be remembered that many countries, especially on the Continent, reckon 360 days to a year. Some countries also reckon 30 days to *each* month, while others reckon the exact number of days as per the calendar. When items are debited or credited before the due date thereof, interest begins to run only from the *due date* of the transactions.

In example A1 (page 133) the days are reckoned after the following manner :—

1st Dr. item		*2nd Dr. item*		*1st Cr. item*	
Jan.	31 days	Mar.	3 days	Feb.	18 days
Feb.	28 ,,	April	30 ,,	Mar.	31 ,,
Mar.	31 ,,	May	31 ,,	April	30 ,,
April	30 ,,	June	30 ,,	May	31 ,,
May	31 ,,		—	June	30 ,,
June	30 ,,		94		—
	—		—		140
	181				—
	—				

It is necessary to warn students against a very common mistake when dealing with accounts current that contain an initial balance. If the opening date is the date of a transaction, it will *not* be counted ; but if it is the date of a previous balance, it *will* be counted. Thus,

in "*Jan.* 1*st*, *To Goods*," Jan. 1st will not be counted; but in "*Jan.* 1*st*, *To Balance*," Jan. 1st will be counted, because it was really the balance due on 31st. Dec. For this reason, therefore, it is advisable to bring down the balance of an account current as on the last day of the previous account. The same remark applies to the bringing down of Ledger balances.

Table of Days.—The following table will be of great service in ascertaining quickly, without the slow and laborious process of actual calculation shown on page 126, the exact number of days in any given period. The student should, however, accustom himself also to that method, as it is the only practicable one in the examination room.

TABLE

SHOWING THE NUMBER OF DAYS IN ANY GIVEN PERIODS OF THE YEAR

Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1	32	60	91	121	152	182	213	244	274	305	335
2	33	61	92	122	153	183	214	245	275	306	336
3	34	62	93	123	154	184	215	246	276	307	337
4	35	63	94	124	155	185	216	247	277	308	338
5	36	64	95	125	156	186	217	248	278	309	339
6	37	65	96	126	157	187	218	249	279	310	340
7	38	66	97	127	158	188	219	250	280	311	341
8	39	67	98	128	159	189	220	251	281	312	342
9	40	68	99	129	160	190	221	252	282	313	343
10	41	69	100	130	161	191	222	253	283	314	344
11	42	70	101	131	162	192	223	254	284	315	345
12	43	71	102	132	163	193	224	255	285	316	346
13	44	72	103	133	164	194	225	256	286	317	347
14	45	73	104	134	165	195	226	257	287	318	348
15	46	74	105	135	166	196	227	258	288	319	349
16	47	75	106	136	167	197	228	259	289	320	350
17	48	76	107	137	168	198	229	260	290	321	351
18	49	77	108	138	169	199	230	261	291	322	352
19	50	78	109	139	170	200	231	262	292	323	353
20	51	79	110	140	171	201	232	263	293	324	354
21	52	80	111	141	172	202	233	264	294	325	355
22	53	81	112	142	173	203	234	265	295	326	356
23	54	82	113	143	174	204	235	266	296	327	357
24	55	83	114	144	175	205	236	267	297	328	358
25	56	84	115	145	176	206	237	268	298	329	359
26	57	85	116	146	177	207	238	269	299	330	360
27	58	86	117	147	178	208	239	270	300	331	361
28	59	87	118	148	179	209	240	271	301	332	362
29	—	88	119	149	180	210	241	272	302	333	363
30	—	89	120	150	181	211	242	273	303	334	364
31	—	90	—	151	—	212	243	—	304	—	365

To illustrate the use of the table, let us suppose that it is required (as in Example A 1, *post*), to ascertain the number of days from 28th March to 30 June. We look for 30 in the first column, and on the same line, under *June*, we find the number 181. We next look for 28 in the first column, and on the same line, under *March*, we find the number 87. Subtracting the two numbers, we get the answer, namely 94 days. In the case of leap year, one day more must be added for February. The above table is also useful in cases of average due date, as explained later.

Different Ways of Reckoning Interest.—There are in vogue various ways of reckoning interest, that is, from the point of view of time, as follows:—

(1) *Forward, i.e.*, from the due date of each transaction to the end of the period of the account current.

(2) *Backward, i.e.*, from the due date of each transaction to the *époque* or beginning of the period of the account current.

(3) *By Steps, i.e.*, on the varying balance of the account current from the date of one transaction to the date of the next.

Methods of Calculating Interest.—From the point of view of actual calculation, there are different ways of proceeding to find the interest:—

(*a*) *By Tables*, which show the exact amount in sterling on each item for the required number of days. The interest columns on each side of the account are then added, and the totals extended into the principal columns. Usually, however, the interest columns are balanced, and only the balance is brought into the account itself.

(*b*) *By Products*, that is, figures obtained by multiplying the number of pounds in each amount sterling by the number of days it has to run for interest. Ten shillings and over are counted as a full pound, smaller sums being ignored. The product columns are then balanced, and the interest on the balance of products extended into the capital columns. The interest is found by means of the following formula:—

$$\text{Interest} = \frac{\text{Balance of Products} \times \text{Rate}}{365 \text{ (or } 360) \times 100}.$$

In practice, however, it is often found more convenient to double the rate per cent., and divide the result by 73,000 (or 72,000, as the case may be).

(*c*) *By Interest Numbers.* This is merely a variation of the product method. Each product is divided by 100, and the quotient, called interest numbers, is entered in its special column. The number columns are then balanced, and interest on the balance of numbers found by the above formula, except for the division by

100, which has already been done. In the case of long accounts, however, interest numbers are not very reliable, owing to the constant approximation of the quotient to the nearest integer, whenever the division results in a remainder larger than one-half. This method is sometimes called the English method, though it is largely used on the Continent.

(*d*) *By the Third, Tenth and Tenth Rule.* This rule is based on the formula—

$$\frac{1}{73{,}000} = \frac{1 + \frac{1}{3} + (\frac{1}{10} \times \frac{1}{3}) + (\frac{1}{10} \times \frac{1}{10} \times \frac{1}{3})}{100{,}000}$$

Briefly stated the method is—

(1) Multiply principal by days, and product by twice rate.
(2) Divide second product by 100,000.
(3) To this add one-third of it, then one-tenth of this third, and then one-tenth of this latter figure.
(4) From result deduct one-ten-thousandth, and the final figure is the required interest.

As an example of this working, let us find the simple interest for 120 days on £5,672 at 5½% per annum.

5,672 × 120	=	680,640
680,640 × 11	=	7,487,040
7,487,040 ÷ 100,000	=	74·87040
Add $\frac{1}{3}$	=	24·95680
Add $\frac{1}{10}$	=	2·49568
Add $\frac{1}{10}$	=	·24956
		102·57244
Deduct $\frac{1}{100000}$	=	·01025
		102·56219

Required interest = £102 11s. 3d.

Interest Tables.—In examination work, the student should ascertain the interest by means of products, as in the examples shown; but for general practice, he should work the exercises by each of the methods illustrated in the worked examples, in order to master them. When desiring to calculate the interest on each item in sterling, the table on pages 130 and 131 will be found very useful.

Varying Rates of Interest.—In some cases different rates of interest are charged in the same account current. The rates may be changed from time to time according to the state of the money market; or it may be that there is one rate for goods, and another for cash. Sometimes the rate of interest on the debits differs from the rate of interest on the credits. In such cases the products must be multiplied by their respective rates of interest before they are balanced. An illustration of this is furnished in Example A 5.

Balance of Capital or Principal.—When accounts current are worked by the *époque* method, the balance of the two principal money columns must be ascertained, and interest charged, or allowed, on it for the period covered by the account. The great advantage of the *époque* method is that it avoids *red ink* interest. The disadvantage of it, however, from the students' point of view, is

TABLE

SHOWING THE INTEREST ON £1 AT 5 PER CENT. FOR ANY PERIOD OF DAYS IN A YEAR

Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.
1	.000137	31	·004246	61	·008356	91	·012465	121	·016575	151	·020685
2	·000274	32	·004383	62	·008493	92	·012602	122	·016712	152	·020822
3	·000411	33	·004520	63	·008630	93	·012739	123	·016849	153	·020959
4	·000548	34	·004657	64	·008767	94	·012876	124	·016986	154	·021095
5	·000685	35	·004794	65	·008904	95	·013013	125	·017123	155	·021232
6	·000822	36	·004931	66	·009041	96	·013150	126	·017260	156	·021369
7	·000959	37	·005068	67	·009178	97	·013287	127	·017397	157	·021506
8	·001095	38	·005205	68	·009315	98	·013424	128	·017534	158	·021643
9	·001232	39	·005342	69	·009452	99	·013561	129	·017671	159	·021780
10	·001369	40	·005479	70	·009589	100	·013698	130	·017808	160	·021917
11	·001506	41	·005616	71	·009726	101	·013835	131	·017945	161	·022054
12	·001643	42	·005753	72	·009863	102	·013972	132	·018082	162	·022191
13	·001780	43	·005890	73	·010000	103	·014109	133	·018219	163	·022328
14	·001917	44	·006027	74	.010137	104	·014246	134	·018356	164	·022465
15	·002054	45	·006164	75	·010274	105	·014383	135	·018493	165	·022602
16	·002191	46	·006301	76	·010411	106	·014520	136	·018630	166	·022739
17	·002328	47	·006438	77	·010548	107	·014657	137	·018767	167	·022876
18	·002465	48	·006575	78	·010685	108	·014794	138	·018904	168	·023013
19	·002602	49	·006712	79	·010822	109	·014931	139	·019041	169	·023150
20	·002739	50	·006849	80	·010959	110	·015068	140	·019178	170	·023287
21	·002876	51	·006986	81	·011095	111	·015205	141	·019315	171	·023424
22	·003013	52	·007123	82	·011232	112	·015342	142	·019452	172	·023561
23	·003150	53	·007260	83	·011369	113	·015479	143	·019589	173	·023698
24	·003287	54	·007397	84	·011506	114	·015616	144	·019726	174	·023835
25	·003424	55	·007534	85	·011643	115	·015753	145	·019863	175	·023972
26	·003561	56	·007671	86	·011780	116	·015890	146	·020000	176	·024109
27	·003698	57	·007808	87	·011917	117	·016027	147	.020137	177	·024246
28	·003835	58	·007945	88	·012054	118	·016164	148	·020274	178	·024383
29	·003972	59	·008082	89	·012191	119	·016301	149	·020411	179	·024520
30	·004109	60	·008219	90	·012328	120	·016438	150	·020548	180	·024657

SHOWING THE INTEREST ON £1 AT 5 PER CENT. FOR ANY PERIOD OF DAYS IN A YEAR (*continued*)

Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest.	Days.	Interest
181	·024794	212	·029041	243	·033287	274	·037534	305	·041780	336	·046027
182	·024931	213	·029178	244	·033424	275	·037671	306	·041917	337	·046164
183	·025068	214	·029315	245	·033561	276	·037808	307	·042054	338	·046301
184	·025205	215	·029452	246	·033698	277	·037945	308	·042191	339	·046438
185	·025342	216	·029589	247	·033835	278	·038082	309	·042328	340	·046575
186	·025479	217	·029726	248	·033972	279	·038219	310	·042465	341	·046712
187	·025616	218	·029863	249	·034109	280	·038356	311	·042602	342	·046849
188	·025753	219	·030000	250	·034246	281	·038493	312	·042739	343	·046986
189	·025890	220	·030137	251	·034383	282	·038630	313	·042876	344	·047123
190	·026027	221	·030274	252	·034520	283	·038767	314	·043013	345	·047260
191	·026164	222	·030411	253	·034657	284	·038904	315	·043150	346	·047397
192	·026301	223	·030548	254	·034794	285	·039041	316	·043287	347	·047534
193	·026438	224	·030685	255	·034931	286	·039178	317	·043424	348	·047671
194	·026575	225	·030822	256	·035068	287	·039315	318	·043561	349	·047808
195	·026712	226	·030959	257	·035205	288	·039452	319	·043698	350	·047945
196	·026849	227	·031095	258	·035342	289	·039589	320	·043835	351	·048082
197	·026986	228	·031232	259	·035479	290	·039726	321	·043972	352	·048219
198	·027123	229	·031369	260	·035616	291	·039863	322	·044109	353	·048356
199	·027260	230	·031506	261	·035753	292	·040000	323	·044246	354	·048493
200	·027397	231	·031643	262	·035890	293	·040137	324	·044383	355	·048630
201	·027534	232	·031780	263	·036027	294	·040274	325	·044520	356	·048767
202	·027671	233	·031917	264	·036164	295	·040411	326	·044657	357	·048904
203	·027808	234	·032054	265	·036301	296	·040548	327	·044794	358	·049041
204	·027945	235	·032191	266	·036438	297	·040685	328	·044931	359	·049178
205	·028082	236	·032328	267	·036575	298	·040822	329	·045068	360	·049315
206	·028219	237	·032465	268	·036712	299	·040959	330	·045205	361	·049452
207	·028356	238	·032602	269	·036849	300	·041095	331	·045342	362	·049589
208	·028493	239	·032739	270	·036986	301	·041232	332	·045479	363	·049726
209	·028630	240	·032876	271	·037123	302	·041369	333	·045616	364	·049863
210	·028767	241	·033013	272	·037260	303	·041506	334	·045753	365	·050000
211	·028904	242	·033150	273	·037397	304	·041643	335	·045890	—	——

that they are so liable to forget to include interest on the balance of the money columns. If the balance of capital is a debit balance the interest must be credited, and *vice versa*. The student should, in this respect, carefully study Example A 3.

Side on Which Interest Falls.—When the days are reckoned by the forward method, that is, from the due date of the transaction up to the end of the period of the account, the interest falls on the *opposite* side to the balance of products ; but when reckoned by the backward or *époque* method, the interest should be placed on the *same* side as the balance of products is entered.

Red Ink Interest.—When an account current is balanced, and contains items which are not due at the date of such balancing, there arises a case of what is called *red ink* interest. Red ink interest denotes interest allowed on items debited in the account before their due dates, also interest charged on items credited in the account before their due dates. Red ink interest runs from the date of closing the account up to the due date of the items prematurely included. The products are worked out in the usual way but are inserted in *red* ink. They must also be entered in ordinary ink on the opposite side, in order to allow for, or charge, them as the case may be. If there are red ink figures on both sides of the account, then only the balance needs to be transferred to the opposite side, debit or credit according to circumstances. When adding up and balancing the product columns the red ink figures are ignored. Under the *époque* method red ink interest will seldom occur. Such a case could only arise, if there were introduced into the account current an old item having a due date anterior to the *époque*.

Leap Year.—In the case of leap year, that is, every year whose two end numbers are divisible by four, except the year of the century, the number of days in February must be reckoned as 29 instead of 28. The total number of days for the year, however, will remain unchanged, being 365, *not* 366.

Example A.—From the following particulars make up an account current to be rendered by G. Green to B. Bennett as at 30th June, reckoning interest at 5 % per annum :—

19—		
Jan.	1.	Balance owing by Bennett to Green, £127 16s. 6d.
Feb.	10.	Cash received from Bennett, £60.
	23.	Goods bought of Bennett, £239 4s. 11d.
	25.	Green accepted Bennett's draft at 1 m/d for £100.
Mar.	10.	Cash paid to Bennett, £75.
April	12.	Goods sold to Bennett, due 12th May, £195 10s. 6d.
May	19.	Goods bought of Bennett, £113 9s. 8d.
June	8.	Goods bought of Bennett, £56 14s. 7d.
	15.	Cash paid to Bennett, £50.
	20.	Goods sold to Bennett, £248 3s. 10d.
	25.	Cash received from Bennett, £100.

Example A 1.—Interest calculated on each item, from due date of each transaction to end of period of account.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN. *Cr.*

Date.	Particulars.	Days.	Interest.	Amount.	Date.	Particulars.	Days.	Interest.	Amount.
19—					19—				
Jan. 1	To Balance .	181	3 3 6	127 16 6	Feb. 10	By Cash . .	140	1 3 —	60 — —
Feb. 25	,, Bill due 28 Mar.	94	1 5 9	100 — —	23	,, Goods .	127	4 3 2	239 4 11
Mar. 10	,, Cash . .	112	1 3 —	75 — —	May 19	,, Do. .	42	13 —	113 9 8
Apr. 12	,, Goods due 12 May	49	1 6 4	195 10 6	June 8	,, Do. .	22	3 5	56 14 7
June 15	,, Cash . .	15	2 —	50 — —	25	,, Cash . .	5	1 5	100 — —
20	,, Goods .	10	6 10	248 3 10	30	,, Interest .			6 4 —
30	,, Interest .			7 7 5	,,	,, Balance c/d			228 5 1
				803 18 3					803 18 3
June 30	To Balance b/d			228 5 1					
	E. & O.E.					London, 30th June, 19— G. GREEN.			

Example A 2.—Same as A 1, but interest calculated by means of products. [1]

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN.

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19—					19—				
Jan. 1	To Balance .	127 16 6	181	23,168	Feb. 10	By Cash . .	60 — —	140	8,400
Feb. 25	,, Bill due 28 Mar.	100 — —	94	9,400	23	,, Goods .	239 4 11	127	30,353
Mar. 10	,, Cash . .	75 — —	112	8,400	May 19	,, Do. .	113 9 8	42	4,746
Apr. 12	,, Goods due 12 May	195 10 6	49	9,604	June 8	,, Do. . .	56 14 7	22	1,254
June 15	,, Cash . .	50 — —	15	750	25	,, Cash . .	100 — —	5	500
20	,, Goods .	248 3 10	10	2,480	30	,, Balance of Products			8,549
30	,, Interest on Balance of Products: [2] 8,549 × 10 / 73,000	1 3 5			,,	,, Balance c/d	228 5 1		
		797 14 3		53,802			797 14 3		53,802
June 30	To Balance b/d	228 5 1							

[1] This way is recommended to students as the best for examinations.

[2] The net result of all the interest calculations is thus equal to 1 day's interest on £8,549 at 5 % per annum.

Example A 3.—Same as A 2, but interest calculated from beginning of period of account, or *époque*, to due date of each transaction.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN. *Cr.*

Date.	Particulars.	Capital or Principal.	Days.	Products.	Date.	Particulars.	Capital or Principal.	Days.	Products.
19—				31 Dec.	19—				
Jan. 1	To Balance	127 16 6	—	*époque*	Feb. 10	By Cash	60 — —	41	2,460
					23	„ Goods	239 4 11	54	12,906
Feb. 25	„ Bill due 28 Mar.	100 — —	87	8,700	May 19	„ Do.	113 9 8	139	15,707
Mar. 10	„ Cash	75 — —	69	5,175	June 8	„ Do.	56 14 7	159	9,063
Apr. 12	„ Goods due 12 May	195 10 6	132	25,872	25	„ Cash	100 — —	176	17,600
June 15	„ Cash	50 — —	166	8,300	30	„ Balance of Principal: £228 (£797 –£569)		181	41,268
20	„ Goods	248 3 10	171	42,408					
30	„ Balance of Products			8,549	„	„ Balance c/d	228 5 1		
„	„ Interest on Balance of Products: $\frac{8,549 \times 10}{73,000}$	1 3 5							
		797 14 3		99,004			797 14 3		99,004
June 30	To Balance b/d	228 5 1							

Example A 4.—Same as A 2, but interest calculated by means of interest numbers.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN. *Cr.*

Date.	Particulars.	Amount.	Days.	Interest Nos.	Date.	Particulars.	Amount.	Days.	Interest Nos.
19—					19—				
Jan. 1	To Balance	127 16 6	181	232	Feb. 10	By Cash	60 — —	140	84
					23	„ Goods	239 4 11	127	304
Feb. 25	„ Bill due 28 Mar.	100 — —	94	94	May 19	„ Do.	113 9 8	42	47
Mar. 10	„ Cash	75 — —	112	84	June 8	„ Do.	56 14 7	22	13
Apr. 12	„ Goods due 12 May	195 10 6	49	96	25	„ Cash	100 — —	5	5
June 15	„ Cash	50 — —	15	8	30	„ Balance of Interest Nos.			86
20	„ Goods	248 3 10	10	25					
30	„ Interest on Balance of Nos. $\frac{86 \times 10}{730}$	1 3 5			„	„ Balance c/d	228 5 1		
		797 14 3		539			797 14 3		539
June 30	To Balance b/d	228 5 1							

Example A 5.—Interest calculated by means of products, but 3½% charged on debit items, and 4½ % allowed on credit items.

Dr. B. BENNETT IN ACCOUNT CURRENT WITH G. GREEN. *Cr.*

Date.	Particulars.	Amount.			Days.	Products.	Date.	Particulars.	Amount.			Days.	Products.
19—							19—						
Jan. 1	To Balance	127	16	6	181	23,168	Feb. 10	By Cash	60	–	–	140	8,400
Feb. 25	,, Bill due 28 Mar.	100	–	–	94	9,400	23	,, Goods	239	4	11	127	30,353
Mar. 10	,, Cash	75	–	–	112	8,400	May 19	,, Do.	113	9	8	42	4,746
Apr. 12	,, Goods due 12 May	195	10	6	49	9,604	June 8	,, Do.	56	14	7	22	1,254
June 15	,, Cash	50	–	–	15	750	25	,, Cash	100	–	–	5	500
20	,, Goods	248	3	10	10	2,480							
						53,802 7							45,253 9
30	To Balance of Products					376614 30,663	30	By Interest on Balance of Products: 30,663 73,000		8	5		407277
							,,	,, Balance c/d	226	13	3		
		796	10	10		407277			796	10	10		407277
June 30	To Balance b/d	226	13	3									

Example B.—R. Reed has the following transactions with W. White :—

19—
Jan. 1. Sold goods to White, £140.
Feb. 15. Remittance received from White, £50.
Mar. 2. Bought goods from White, £345
3. Accepted White's draft at 1 m/d for £100.
April 11. Cash paid to White, £100.
30. Goods sold to White, £116, due end of May.
May 11. Bought goods from White, £85.
31. Sold goods to White, £125.
June 15. Bought goods from White, £145, due end of July.

Make out an account current to be rendered by R. Reed at 30th June, bringing interest into account at the rate of 5 % per annum.

Example B 1.—Interest calculated on each item from due date

of each transaction to end of period of account, similar to A 1, but introducing *Red Ink Interest* (shown in heavy type).

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED. *Cr.*

Date.	Particulars.	Days.	Interest.	Amount.	Date.	Particulars.	Days.	Interest.	Amount
19—					19—				
Jan. 1	To Goods	180	3 9 –	140 – –	Feb. 15	By Cash	135	18 6	50 – –
Mar. 3	„ Bill due 6 Apr.	85	1 3 4	100 – –	Mar. 2	„ Goods	120	5 13 5	345 – –
Apr. 11	„ Cash	80	1 1 11	100 – –	May 11	„ Do.	50	11 8	85 – –
30	„ Goods due 31 May	30	9 6	116 – –	June 15	„ Do. due 31 July	31	12 4	145 – –
May 31	„ Goods	30	10 3	125 – –	30	„ Interest			7 3 7
June 30	„ Red Ink Interest as per contra		12 4						
„	„ Interest			7 6 4					
„	„ Balance c/d			43 17 3					
				632 3 7					632 3 7
					June 30	By Balance b/d			43 17 3

Note.—The item on the 15th June ought not to be settled till the 31st July. It is, however, being settled on the 30th June, that is, 31 days before the proper time. Interest on the money for 31 days must, therefore, be debited to the account.

Example B 2.—Same as B 1, but interest (including red ink interest) calculated by means of products.[1]

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED. *Cr.*

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19—					19—				
Jan. 1	To Goods	140 – –	180	25,200	Feb. 15	By Cash	50 – –	135	6,750
Mar. 3	„ Bill due 6 Apr.	100 – –	85	8,500	Mar. 2	„ Goods	345 – –	120	41,400
Apr. 11	„ Cash	100 – –	80	8,000	May 11	„ Do.	85 – –	50	4,250
30	„ Goods due 31 May	116 – –	30	3,480	June 15	„ Do. due 31 July	145 – –	31	4,495
May 31	„ Goods	125 – –	30	3,750	30	„ Balance of Products			1,025
June 30	„ Red Ink Interest as per contra			4,495					
30	„ Interest on balance of products: 1025 × 10 / 73,000	2 9							
„	„ Balance c/d	43 17 3							
		625 – –		53,425			625 – –		53,425
					June 30	By Balance b/d	43 17 3		

[1] This way is recommended to students as the best for examinations.

Example B 3.—Same as B 2, but interest calculated from due date of each transaction to *époque* or beginning of period of account

Dr. W. WHITE IN ACCOUNT CURRENT WITH R. REED. *Cr.*

Date.	Particulars.	Amount.	Days.	Products.	Date.	Particulars.	Amount.	Days.	Products.
19—					19—				
Jan. 1	To Goods	140 — —	—	*époque*	Feb. 15	By Cash	50 — —	45	2,250
Mar. 3	„ Bill due 6 April	100 — —	95	9,500	Mar. 2	„ Goods	345 — —	60	20,700
Apr. 11	„ Cash	100 — —	100	10,000	May 11	„ Do.	85 — —	130	11,050
30	„ Goods due 31 May	116 — —	150	17,400	June 15	„ Do. due 31 July	145 — —	211	30,595
May 31	„ Goods	125 — —	150	18,750					
June 30	„ Balance of Capital, £44		180	7,920					
„	„ Balance of Products			1,025					
„	„ Interest on Balance of Products: 1025 x 10 / 73,000	2 9							
„	„ Balance c/d	43 17 3							
		625 — —		64,595			625 — —		64,595
					June 30	By Balance b/d	43 17 3		

Example B 4.—Same as B 2, but interest calculated on the varying balance of the account from the date of one transaction to the date of the next, allowing for any items debited or credited before their due dates.

Dr. W. WHITE IN ACCOUNT WITH R. REED. *Cr.*

Date.	Items.		Amount.	Due Date.	Days.	Products. Dr.	Products. Cr.
19—							
Jan. 1	To Goods	Dr.	140 — —		45	6,300	
Feb. 15	By Cash	Cr.	50 — —				
		Dr.	90 — —		15	1,350	
Mar. 2	By Goods	Cr.	345 — —				
		Cr.	255 — —		1		255
3	To Bill Payable	Dr.	100 — —	6 April	34		3,400
		Cr.	155 — —		39		6,045
April 11	To Cash	Dr.	100 — —				
		Cr.	55 — —		19		1,045
30	To Goods	Dr.	116 — —	31 May	31		3,596
		Dr.	61 — —		11	671	
May 11	By Goods	Cr.	85 — —				
		Cr.	24 — —		20		480
31	To Goods	Dr.	125 — —				
		Dr.	101 — —		15	1,515	
June 15	By Goods	Cr.	145 — —	31 July	46	6,670	
		Cr.	44 — —		15		660
30	To Interest on Balance of Products: 1025 x 10 / 73,000	Dr.	2 9				1,025
		Cr.	43 17 3			16,506	16,506

Note.—This method is sometimes called the "Hamburg" method.

AVERAGE DUE DATE

Definition.—The average due date is the mean, or equated, date on which a single payment may be made in lieu of several payments on different dates.

For What Purpose Used.—The average due date method of payment is used in the settlement of bills and contra accounts, and for calculating interest (*a*) on partners' drawings, (*b*) on the realisation of book debts in a partnership liquidation.

Process of Working.—The method of working is as follows :—

(1) Take any convenient date, preferably the *first* due date of the transactions, as a starting-point.

(2) Multiply the amount of each transaction by its number of days from the starting-point. Fractions of a pound under ten shillings are ignored ; ten shillings and over are counted as another pound.

(3) Add up these various products into one total.

(4) Add up the amounts of the various transactions into one total.

(5) Divide the total of the products by the total amount of the transactions.

(6) The result will be the number of days that the average due date is *subsequent* to the starting-point. This date can then be calculated, one-half of a day or over being counted as another day, and fractions under one-half being ignored.

If we base our calculations on the *last* due date as the starting-point, the answer will give us the number of days that the average due date is *previous* to the starting-point. Should we select an intermediate date as the *époque* or fixed starting-point then we must take the difference between the two lots of products, *i.e.*, those *previous* to the *époque* and those *subsequent* to it. The balance belongs to the side of the greater products. If the products above the *époque* transaction are the greater, the average due date will be *prior* to the starting-point ; if the products below the *époque* transaction are the greater, then the average due date will be *subsequent* to the starting-point.

Where there are both debit and credit items, a starting-point must be fixed, either one of the inside or one of the outside dates, but preferably the first due date. Each side must then be treated separately. Divide the balance of the products by the balance of the money columns. The result will show the number of days that the average due date is from the *époque* or base date.

Example 1.—A merchant has purchased goods the due dates of which are as follows :—

March 15th, £220, due April 18th.
April 21st, £125, due May 24th.
April 27th, £200, due June 30th.
May 15th, £350, due July 18th.

He wishes to give a bill for the total amount due, the bill to be drawn payable on the average due date. Ascertain this date.

(1) Take April 18th as starting-point.

April 18th = 0 days from starting-point.
May 24th = 36 „ „ „ „
June 30th = 73 „ „ „ „
July 18th = 91 „ „ „ „

Amounts.		*Days.*		*Products.*
£220	×	0	=	0
125	×	36	=	4,500
200	×	73	=	14,600
350	×	91	=	31,850
£895				50,950

$\frac{50950}{895}$ = 57 nearly. The average due date is, therefore, 57 days from starting-point. Calculating this, we find the average due date is the 14th of June, *i.e.*, 12 in April, 31 in May, 14 in June.

(2) Take July 18th as starting-point.

Amounts.		*Days.*		*Products.*
£220	×	91	=	20,020
125	×	55	=	6,875
200	×	18	=	3,600
350	×	0	=	0
£895				30,495

30,495 ÷ 895 = 34. The average due date is, therefore, 34 days *previous* to July 18th. This works out to 16 days from the end of June (18 in July and 16 in June). June 30th—16th = 14th June, as before.

(3) Take 30th June as starting-point.

Amounts.		*Days.*		*Products.*
£220	×	73	=	16,060
125	×	37	=	4,625
200	×	0	=	0
350	×	18	=	6,300
£895				14,385

The number 14,385 is the difference between the totals of the products previous to the starting-point and subsequent to it. (20,685 — 6,300). The balance belongs to the side of the greater products, and the due date in this case will consequently be *prior* to the starting-point.

14,385 ÷ 895 = 16. The average due date is, therefore, June 30 — 16, that is, the 14th of June, as in the two previous cases.

Example 2.—S. Spender, a partner in the firm of Wise & Co., has, during the year, drawn for his own use the following sums :—

Jan. 17th, £20 ; Feb. 25th, £15 ; Mar. 15th, £25 ; Apr. 19th, £16 ; May 14th, £22 ; June 23rd, £19 ; July 18th, £24 ; Aug. 25th, £18 ; Sept. 20th, £25 ; Oct. 16th, £17 ; Nov. 21st, £21 ; Dec. 25th, £30.

He is to be charged interest thereon at 5 % per annum up to the end of the year. Work out the total interest by means of the average due date method.

Amount.		*Days.*		*Product.*
£20	×	348	=	6,960
15	×	309	=	4,635
25	×	291	=	7,275
16	×	256	=	4,096
22	×	231	=	5,082
19	×	191	=	3,629
24	×	166	=	3,984
18	×	128	=	2,304
25	×	102	=	2,550
17	×	76	=	1,292
21	×	40	=	840
30	×	6	=	180
£252				42,827

42,827 ÷ 252 gives 170 days prior to Dec. 31st as the average due date, Interest on £252 at 5 % for 170 days = 252 × ·023287 (Table page 130) = £5·868 = £5 17s. 4d.

We will now verify our answer by means of the product method. The products will be the same as before, namely, 42,827.

$$\frac{42{,}827 \times 10}{73{,}000} = £5{\cdot}867. = £5\ 17s.\ 4d$$

We will next verify our answer by ascertaining the interest on each item separately.

Date.	*Days.*	*Amount.*	*Decimals (Table pp. 130 & 131)*	*Interest.*
Jan. 17	348	£20 – –	·047671	19 1
Feb. 25	309	15 – –	·042328	12 8
Mar. 15	291	25 – –	·039863	19 11
April 19	256	16 – –	·035068	11 3
May 14	231	22 – –	·031643	13 11
June 23	191	19 – –	·026164	9 11
July 18	166	24 – –	·022739	10 11
Aug. 25	128	18 – –	·017534	6 4
Sept. 20	102	25 – –	·013972	7 –
Oct. 16	76	17 – –	·010411	3 6
Nov. 21	40	21 – –	·005479	2 4
Dec. 25	6	30 – –	·000822	6
		£252 – –		£5 17 4

Example 3.—C. Chambers sells goods to S. Coles, as under :—
Jan. 4th, £250 ; Feb. 18th, £175 ; Mar. 24th, £210.
He also buys goods from S. Coles, as follows :—
Jan. 23rd, £125 ; Mar. 10th, £236 ; April 17th, £85.
Chambers's terms are bill at 2 months, but Coles's terms are bill at 1 month. Both parties, however, desire payment at the equated date. When will this be, and for what amount ?

Dr. S. COLES IN ACCOUNT WITH C. CHAMBERS. *Cr.*

Date.	Item.	Due Date.	Amount.	Days.	Products.	Date.	Item.	Due Date.	Amount.	Days.	Products.
19—		19—				19—		19—			Starting point.
Jan. 4	To Goods	Mar. 7	250 — —	9	2,250	Jan. 23	By Goods	Feb. 26	125 — —	—	
Feb. 18	„ „	Apr. 21	175 — —	54	9,450	Mar. 10	„ „	Apr. 13	236 — —	46	10,856
Mar. 24	„ „	May 27	210 — —	90	18,900	Apr. 17	„ „	May 20	85 — —	83	7,055
							„ Bal.		189 — —		12,689
			635 — —		30,600				635 — —		30,600
	To Bal.		189 — —								

$$\frac{12689}{189} = 67.$$ Sixty-seven days from starting-point = May 4th. (2 in Feb., 31 in March, 30 in April and 4 in May.)

On 4th May, then, Coles must pay Chambers £189.

Average Due Date and the Table of Days.—The Table of Days on page 127 will be found very serviceable in determining quickly and accurately the *day* and *month* of the average due date. Let us refer to Example 1 on page 139. We require to know the average due date, which the answer says is 57 days from the starting-point, viz., April 18th. From the Table we find:—
Number corresponding to April 18th = 108 ; 108 + 57 = 165.
Date corresponding to the number 165 = 14th June.
Again, in Example 3 (above) the average due date, according to the answer, is 67 days from the starting-point of Feb. 26th. From the table:—
Feb. 26th = 57 ; 57 + 67 = 124 ; 124 = 4th May.

QUESTIONS ON CHAPTER IV

A

1. What is an Account Current ? Explain the meaning of the following :— "F. Smithers in Account Current with P. Jones."
2. Explain, with example, how the days in any given period are calculated. What variations exist with regard to the number of days (*a*) in a month, (*b*) in a year ?
3. When transactions have both a date of entry and a due date, from which date does interest commence ?

4. When is the initial date in an account current (*a*) counted, (*b*) not counted? At what date should the balance of an account current be brought down, and why?

5. Find, by means of actual calculation, the number of days from Jan. 16th to May 29th, and verify your answer by means of the Table of Days on pages 130-1.

6. Explain briefly the three different ways of reckoning interest, in accounts current, as regards the number of days.

7. Explain briefly the three different methods of calculating the amount of interest in accounts current.

8. What is meant by the following terms: English method, Continental method, Hamburg method? What is the disadvantage of the so-called English method?

9. Ascertain, at sight, the interest represented by the following decimals:—
(*a*) ·765428; (*b*) ·954907; (*c*) ·387619; (*d*) ·858762.

10. Find, by actual calculation, the interest on £179 for 239 days at the rate of 5 % per annum, and verify your answer by means of the Interest Tables on page 131.

B

1. Explain what variation in calculation is necessary when different rates are charged on debits and credits in the same account current.

2. What is Red Ink Interest? How does it arise? How is it dealt with?

3. Explain the phrase, "Balance of Capital or Principal," and what treatment it requires in particular accounts current. How does leap year affect the number of days (*a*) in the monthly calculation, (*b*) in the yearly calculation?

4. On which side is the balance of products entered, and to which side does it belong?

5. On which side is the balance of interest entered, and to which side does it belong:—
(*a*) in the forward method?
(*b*) in the backward or *époque* method?
(*c*) in the "steps" method?

6. When there is "red ink" interest on both sides of an account current, how is it treated?

7. What is meant by "average due date"? For what purposes is such method of calculation used?

8. Explain briefly the process of ascertaining the average due date of several transactions.

9. How would the same average due date calculation be affected:—
(*a*) By taking the first due date as the starting-point?
(*b*) ,, ,, ,, last ,, ,, ,, ,, ,, ?
(*c*) ,, ,, an intermediate ,, ,, ,, ,, ?

10. How is the average due date ascertained when there are several debit and several credit transactions of varying due dates?

EXERCISE IV

1. What do you understand by an Account Current? Make out such an account for Yeadon & Co. from the following:—

Jan. 1. Sold Goods to Marshall & Co., £200, due March 1.
Feb. 1. Received cash from Marshall & Co., £100.
Mar. 1. Bought Goods from Marshall & Co., £500, due May 1.
April 1. Paid Marshall & Co., £300.
May 1. Bought Goods from Marshall & Co., £200.
June 30. Sold Goods to Marshall & Co., £300.

Interest 5 %, the account to be made up to June 30th.—(*Lancashire and Cheshire Union.*)

2. The undermentioned transactions took place between Robertson & Co., of London, and Trumper & Co., of Melbourne :—

Dec. 31.	Balance owing by Trumper & Co. to Robertson & Co. at this date	£500
Jan. 7.	Robertson & Co. shipped Goods to Trumper & Co.	300
April 10.	Bank Draft received this day by Robertson & Co. from Trumper & Co.	600
Apr. 15.	Robertson & Co. paid on behalf of Trumper and Co. :—	
	Charges, Orient Mail S.S. Co.	50
	London Packing Co., Ltd.	100

Prepare Account Current bearing interest at 5% to be rendered by Robertson and Co. to Trumper and Co., as on April 30th.—(*Royal Society of Arts.*)

3. Define an "Account Current," and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson :—

19--.

Jan.	17.	Goods sold to Charles Dawson, £200, due February 1.
Feb.	1.	Received cash from Charles Dawson, £50.
Mar.	18.	Goods bought of Charles Dawson, £300, due April 1.
April	1.	Paid to Charles Dawson, cash, £200.
May	1.	Goods bought of Charles Dawson, £150.
,,	10.	Goods sold to Charles Dawson, £120, due June 1.

The account to be made up to June 1, 19--, interest to be at 6 % per annum, which may be calculated by months instead of days.—(*Lancashire and Cheshire Union.*)

4. T. Tongs has the following transactions with P. Parker :—

July	3.	Sold goods to P. Parker, £175 16s. 11d.
Aug.	14.	Remittance from P. Parker, £75 15s. 6d.
Sept.	8.	Goods bought of P. Parker, £319 10s. 7d.
	10.	Accepted P. Parker's draft, dated 9th inst., at 1 m/d for £125.
Oct.	15.	Cash paid to P. Parker, £95 14s. 10d.
	31.	Goods invoiced to P. Parker, £138 2s. 8d. due 1 m/d.
Nov.	9.	Bought goods from P. Parker, £65 18s. 3d.
	30.	Sold goods to P. Parker, £115 17s. 11d.
Dec.	20.	Bought goods from P. Parker, £167 7s. 9d.

Make up an Account Current to be rendered by T. Tongs at 31st Dec., bringing interest into account at the rate of 5 % per annum.

5. From the following particulars make up an Account Current to be rendered by C. Evans to W. Wood, as at 31st Dec., reckoning interest at 5 % per annum :—

July	5.	Sold goods to Wood, £163 9s. 10d.
Aug.	12.	Remittance from Wood, £66 16s. 6d.
Sept.	7.	Bought from Wood, £356 6s. 11d.
	8.	Accepted Wood's draft at 1 m/d for £110 10s. 10d.
Oct.	12.	Cash paid on account of Wood £99 9s. 11d.
	30.	Goods sold to Wood, £127 13s. 4d., due end of Nov.
Nov.	13.	Bought goods from Wood, £92 13s. 3d.
	30.	Sold goods to Wood, £136 5s. 8d.
Dec.	11.	Bought goods from Wood, £155 15s. 5d., due Jan. 11th.
	17.	Sold goods to Wood, £129 16s. 4d., due Jan. 17th.

6. E. Easton receives on account of W. West :—
Jan. 10th, £120 2s. 11d. ; Feb. 15th, £250 9s. 6d. ; Mar. 21st, £300 15s. 10d. ; April 18th, £275 16s. 8d.

He pays on account of W. West :—
Jan. 15th, £75 15s. 8d. ; Feb. 8th, £199 18s. 10d. ; Mar. 16th, £256 10s. 9d. ; April 20th, £240 3s. 6d.
Make up an Account Current to end of June, charging and allowing interest at the rate of 6 % per annum.

7. From the following particulars construct an Account Current as at 25th April, reckoning interest at 5 % per annum, and show amount of cheque in settlement :—

N. NORTHCOTE IN ACCOUNT WITH S. ANDERSON & CO.

		£	s.	d.			£	s.	d.
Apr. 16.	To your Draft at sight . .	250	–	–	Apr. 18.	By Cash as per A/c Sales .	355	2	10
„	Charges as per A/c Sales .	127	17	11	22. „	Ditto . .	75	16	4
18. „	Advertising .	1	15	6	„ „	Proceeds as per A/c Sales due 15th May	238	18	11
25. „	Our Commission . .	33	9	11					

8. From the following particulars construct an Account Current, reckoning interest at 5 % per annum to 30th June :—

O. JORDAN IN ACCOUNT WITH T. TETLOW

		£	s.	d.			£	s.	d.
Jan. 1.	To Balance. .	771	10	8	Feb. 12.	By A/c Sales of Cotton .	1,019	18	8
23. „	Cash paid to meet your sight Draft .	55	8	6	Apr. 30. „	A/c Sales of Cotton .	957	4	2
Feb. 8. „	Acceptance of your Draft due 11th Mar.	300	–	–					
26. „	Cash paid to meet your Sight Draft .	52	12	7					
Mar. 9. „	Acceptance of your Draft due 12th May	300	–	–					
Apr. 15. „	Cash paid to meet your Sight Draft .	110	10	5					
May 10. „	Ditto .	92	16	8					
June 8. „	Acceptance of your Draft due 11th Aug.	200	–	–					

9. M. Bressloff of Liverpool dispatched goods to his agent, M. Goodman of Calcutta, and the agent forwarded sale sheets as under :—
Jan. 12th, £420 10s. 6d. ; Feb. 15th, £356 9s. 11d. ; Mar. 21st, £238 18s. 10d. ; April 10th, £127 2s. 8d.
The terms of payment were net cash in Liverpool two months from date of sale sheet. Remittances were made as follows :—
Mar. 10th, £250 ; April 10th, £150 ; May 6th, £250 ; June 15th, £350.
Settlement was to be effected half-yearly, on the basis of an Account Current, with interest at the rate of 5 % per annum. Draw up the Account Current and show balance due on June 30th.

10. From the following particulars draw up an Account Current as at 31st May, reckoning interest at 5 % per annum :—

C. CEDAR IN ACCOUNT WITH J. HUGHES

		£	s.	d.			£	s.	d.
Jan. 1.	To Balance.	287	11	5	Feb. 10.	By Net Proceeds, A/c Sales of Cotton, due end of Feb.	965	13	10
26.	„ Cash paid to your Sight Draft	50	4	7					
Feb. 6.	„ Acceptance of your Draft @ 2 m/d	500	–	–	May 15.	By Net Proceeds, A/c Sales of Cotton, due end of May	1,017	2	8
25.	„ Cash paid to your Sight Draft	125	10	6					
Apr. 6.	„ Acceptance of your Draft @ 2 m/d	500	–	–					
11.	„ Cash paid to your Sight Draft	120	15	6					
May 11.	„ Ditto	225	16	2					

11. The following sums have been drawn by J. Stewart, a partner in the firm of Flowers & Co. :—

Jan. 15th, £35 ; Feb. 20th, £45 ; Mar. 18th, £35 ; April 20th, £25 ; May 13th, £26 ; June 15th, £15 ; July 20th, £42 ; Aug. 17th, £34 ; Sept. 21st, £32 ; Oct. 14th, £28 ; Nov. 18th, £35 ; Dec. 21st, £38.

Make up his Drawing Account as at 31st Dec., charging interest at 5 % per annum, and calculating same by means of the product method as in accounts current.

12. From the following prepare an Account Current, reckoning interest at 5 % per annum to end of March :—

L. LOCKE IN ACCOUNT WITH K. KAY

		£	s.	d.			£	s.	d.
Jan. 1.	To Balance.	125	15	3	Feb. 10.	By Cheque.	70	–	–
Feb. 12.	„ Goods	62	10	6	15.	„ Draft @ 1 m/d	65	–	–
					Mar. 5.	„ Expenses	15	11	3
					31.	„ Postages	1	12	6
					„	„ Commission	1	2	6

13. Prepare an Account Current, to be rendered by O. Oldham of Bombay to N. Newton of Manchester, from the following particulars :—

Balance due to N. Newton on 1st Jan., £753 2s. 11d.

N. Newton accepted drafts as under :—

Jan. 29th, £250 at 1 m/d ; Feb., 28th, £250 at 1 m/d ; Mar. 31st, £250 at 1 m/d.

Payments made on account of O. Oldham :—

Jan. 22nd, £27 16s. 4d. ; Feb. 12th, £106 12s. 6d. ; April 11th, £152 3s. 11d. ; May 13th, £236 12s. 10d.

Credits to O. Oldham :—

Jan. 27th, net proceeds of Account Sales of Cotton, £1,617 14s. 8d., due 15th March ; May 24th, net proceeds of Account Sales of Cotton, £606 2s. 8d., due 15th June.

Interest to be calculated at 5 % to end of June.

14. A. Ashton of London sells goods to B. Beech of Calcutta for payment in London on the average due date. The sales are due as under :—

June 5th, £726 16s. 2d. ; July 12th, £979 17s. 8d. ; Aug. 26th, £1,127 3s. 11d. ; Sept. 18th, £359 8s. 6d.

Find the average due date by taking June 5th as the starting-point, and verify your answer by taking (*a*) Sept. 18th, (*b*) Aug. 26th, as starting-points respectively.

15. A merchant desires to ascertain the average date on which to draw for the total amount due, as follows :—
June 5th, £355 9s. 10d. ; July 8th, £466 16s. 8d. ; Sept. 11th, £229 14s. 7d.
State the average due date, and show the process of working.

16. A merchant trading with a distant colonial market allows long credit, and his terms of payment are : " All goods purchased during the month to be drawn for on the 15th of the following month, at six months, plus bill stamp." Goods are sold as follows :—
Jan. 12th, £375 2s. 9d. ; Feb. 26th, £268 16s. 6d. ; Mar. 3rd, £349 14s. 4d. ; Mar. 19th, £186 3s. 7d.
The total is drawn for at the average due date. Ascertain this date.

17. A merchant has purchased goods the due dates of which are as under :—
Aug. 12th, £156 15s. 9d., due on Sept. 12th.
Aug. 21st, £298 4s. 5d., „ „ Oct. 1st.
Sept. 23rd, £127 17s. 2d., „ „ Nov. 1st.
Oct. 9th, £395 5s. 8d. „ „ Nov. 19th.
Payment is arranged to be made for the total amount at the average due date. What is this date ?

18. E. Ellis, a partner in the firm of Forest & Co., has, during the year, drawn for his own use the following sums :—
Jan. 11th, £25 ; Feb. 15th, £15 ; Mar. 18th, £28 ; Apr. 13th, £25 ; May 17th, £22 ; June 20th, £25 ; July 23rd, £24 ; Aug. 12th, £26 ; Sept. 14th, £21 ; Oct 16th, £23 ; Nov. 15th, £28 ; Dec. 21st, £35.
He is to be charged interest at the rate of 5 % per annum on the total amount at the average date. Ascertain this interest, and verify your answer :—
(1) By means of the product method as in accounts current ;
(2) By calculating the interest on each item separately.

19. F. Elliott sells goods to P. Pine as under :—
July 12th, £26 13s. 2d. ; Aug. 20th, £129 5s. 10d. ; Sept. 15th, £265 17s. 11d.
He also purchases goods from P. Pine as follows :—
July 20th, £178 4s. 8d. ; Aug. 10th, £296 18s. 6d. ; Sept. 22nd, £97 6s. 8d.
Elliott gives only one month's credit, but Pine allows two months. Both parties, however, desire settlement at the equated date. When will this be, and for what amount ?

20. Jones and Brown dissolve partnership on 1st Jan., and their Balance Sheet, after all adjustments, was as follows :—

BALANCE SHEET AS AT 1ST JAN.

Liabilities.				*Assets.*			
Sundry Creditors.	1,277	12	6	Cash	1,565	10	5
Capital A/cs—				Sundry Debtors . .	4,281	10	10
Jones . . .	3,000	–	–	Fixtures and Fittings .	430	11	3
Brown . . .	2,000	–	–				
	6,277	12	6		6,277	12	6

Brown is to take over the Fixtures at their book value, to allow Jones £700 for his share of the Goodwill, and to pay him the amount due as and

when realised, interest to be brought into account at the rate of 5 % per annum. The Debtors were realised at an average date of eight months, and the Creditors paid at an average date of five months, from the date of dissolution. Brown paid Jones £650 on 15th March, £650 on 15th June, £650 on 15th Sept., and the balance on 31st Dec. Draw up the Account Current, and show the final payment made to Jones.

REVISION EXERCISE IV

1. What do you understand by :—
   (*a*) Nominal account.
   (*b*) Real account.
   (*c*) Personal account ?
   Give two examples of each.

—(*Lancashire and Cheshire Union.*)

2. Write up in the several Books to which they properly belong, the following transactions :—

19—

Jan. 2. Sold James & Co., 20 tons 10 cwt. 2 qrs. Steel Bars at 103s. 4d. f.o.b.
Paid Carriage thereon at 2s. 6d. per ton, by Cheque on " Provincial Bank."
Received Cheques—J. Tasker, £47 10s. ; W. Methley, £39 15s. ; and from J. Moulton, £43 17s. 6d. in payment of his Account after deducting 2½ % Discount.

6. Received from W. Lyons, 150 tons Pig Iron at 43s. 4d., less 3 %—remitted him acceptance at 3 months, dated 1st inst.

7. Received from J. Kitson his acceptance at 4 months, dated 4th inst., for £178 10s. in payment of his Account.

9. Gave Cheques for—Rent, £100, quarter year due 1st inst. ; Salaries, £25 ; and for Wages, £75.

11. Received from " Provincial Bank," J. Butler's Dishonoured acceptance for £35 6s. 8d. with 7s. 6d. expenses.

—(*London Chamber of Commerce.*)

3. Explain the difference between a " Trading " Account and a " Profit and Loss " Account, and state in which account you would place the following items, giving your reasons :—

Purchases	Allowances
Manufacturing Wages	Debenture Interest
Carriage	Salaries
Returns	Advertising
Sales	Stocks and Materials.

—(*Royal Society of Arts.*)

4. William Ashton is a shipbuilder. On January 1st he had a Capital of £23,760 7s. 8d., Bills Payable current No. 135, £640 8s. 0d., No. 136, £728 10s. 0d., No. 137, £320 17s. 6d., and having received on Account of Ships in progress, " Owl," £6,849, and " Hawk," £3,500. A Mortgage to P. Piper for £8,000 existed on his Works and Plant, which were valued as follows :—Freehold Works and Buildings, £9,127 10s. 0d., Fixed Plant and Machinery, £7,826 15s. 0d., Dry Dock, £6,284, Loose Plant and Rolling Stock, £2,788 5s. 6d.

He owed to Brown & Co., £848 19s. 0d., Jones & Co., £1,653 10s. 0d., Robinson & Co., £984 17s. 0d. He had Cash at Bankers, £2,796 8s. 8d. and in Office, £120 14s. 6d. His Bills Receivable in hand were No. 186, £329 6s. 6d., No. 187, £546 10s. 0d., No. 188, £490 9s. 6d.

He had three ships under Construction, on which he had expended in Work and Materials, " Owl," £7,126, " Hawk," £4,291, " Sparrow," £835.

The Stock of Stores and Materials on hand, valued at cost price, was £4,724 9s. 6d.

You are required to make the necessary "opening entries."—(*Royal Society of Arts.*)

5. At a recent examination, the understated "Balance Sheet" was sent in by a Candidate. Have you any criticism to offer upon it?

BALANCE SHEET

MESSRS. A. & B. 31ST DEC., 19—

Assets.				*Liabilities.*			
Plant A/c			4,000 – –	A's Capital		3,000 – –	
Debtors	8,200 – –			Add Interest		150 – –	
Less Reserve (31st Dec.)	410 – –						3,150 – –
			7,790 – –	B's Capital		2,000 – –	
A's Drawings			300 – –	Add Interest		100 – –	
B's Drawings			200 – –				2,100 – –
Repairs			120 – –	Creditors			9,800 – –
Stock (1st Jan.)	3,200 – –			A's Profits			1,800 – –
„ (31st Dec.)	4,000 – –			B's Profits			1,800 – –
			7,200 – –	Depreciation on Plant			200 – –
Cash			420 – –	Reserve for Debtors (Jan)			350 – –
				Balance			830 – –
			20,030 – –				20,030 – –

—(*London Chamber of Commerce.*)

6. The undermentioned errors were made by the counting-house staff in the books of Messrs. Black and Brown during the year ended December 31st:—

(*a*) On June 30 a builder's charge for the erection of a small shed, amounting to £198, was analysed in the Purchases Journal under the head of "Repairs," and posted to that account.

(*b*) On July 1 a cheque for £18 2s. 4d. received from James Smith was dishonoured, and was posted to "Allowances Account."

(*c*) On August 12 the total of the previous month's wages was debited to "Manufacturing Wages Account." During the month some new machinery had been put down, and the firm's own men had spent time thereon amounting to £141.

(*d*) On December 28 goods to the value of £64 were returned by Francis White and were taken into stock; but the returns were not entered in the books until January 2nd.

How would you adjust these errors, and how would they affect the Annual Accounts for the year ended December 31st?—(*Royal Society of Arts.*)

7. John Pearson and Allan Macgregor are in partnership as Corn Dealers. On Dec. 31st the following Balances were extracted from their books.

You are requested to prepare a Trading and Profit and Loss Account for the year ended Dec. 31st, and a Balance Sheet as on that date. Before preparing these accounts, it is necessary to take the following matters into consideration:—

(*a*) Profits and Losses are to be shared, two-thirds by Pearson, and one-third by Macgregor.

(*b*) Interest at 5 % per annum is to be charged on Capital but not on Drawings.

(*c*) Depreciation is to be charged as follows :—(1) Fixtures and Fittings, 5 %. (2) Plant and Machinery, 10 %. (3) Horses and Carts, 15 %.
(*d*) The Bad Debt reserve is to be made up to £500.
(*e*) Only three-quarters' Rent had been paid on Dec. 31st, and no reserve had been passed through the books for the quarter owing.
(*f*) The unexpired amounts to be carried forward are :—(1) Rates and Taxes, £14 8s. 7d. (2) Insurance, £7.
(*g*) The value of the Stock in hand, as on Dec. 31st, was agreed at £2,994 14s. 7d.

Give the Journal entries for the above adjustments.

BALANCES

	£	s.	d.		£	s.	d.
John Pearson, Capital	6,000	–	–	John Pearson, Drawings	650	–	–
Allan Macgregor, ,,	3,000	–	–	Allan Macgregor, ,,	300	–	–
Repairs and Renewals	248	2	1	Water, Gas, etc. .	126	2	7
Plant & Machinery .	847	10	–	Rent . . .	150	–	–
Sales . . .	19,947	18	9	Reserve for Bad Debts			
,, Returns . .	742	7	8	(1st Jan.) . .	150	–	–
Stock (1st Jan.) .	2,721	14	1	Insurance . .	30	5	2
Bad Debts . .	89	4	–	Trade Expenses .	197	18	1
Cash Sales . .	384	2	9	General Expenses .	203	1	2
Carriage . . .	1,421	10	7	Discounts . Cr.	4	9	7
Travelling Expenses .	156	14	2	Sundry Creditors .	1,099	10	10
Stable Expenses .	192	1	4	Sundry Debtors .	5,771	4	1
Purchases . .	13,728	–	6	Horses and Carts .	356	14	11
,, Returns .	757	16	5	Rates and Taxes .	127	4	6
Bills Receivable .	929	1	1	Fixtures and Fittings	375	8	9
Wages . . .	1,646	13	10	Commission . Dr.	62	12	7
Salaries . . .	346	2	3	Cash in hand . .	46	7	1
				Bank balance . Cr.	122	2	2

—(*Royal Society of Arts.*)

CHAPTER V

CONSIGNMENTS OUTWARDS, CONSIGNMENTS INWARDS, JOINT ADVENTURES

Definition.—An Outward Consignment is the dispatch of a quantity of goods from one place to another, usually to some country or place abroad, for the purpose of sale.

Consignor.—A consignor is a person who forwards the goods for sale.

Consignee.—A consignee is the person to whom the goods are forwarded for sale.

Commission.—This is a term used to denote the remuneration of the consignee for selling the goods.

Differences between a Consignment and a Sale.—There are two principal differences between a Consignment and a Sale. When goods are *sold* to a person, the property in them passes to that person; when goods are *consigned* to a person the legal ownership of the goods remains in the consignor. Hence the person to whom goods are sold is a *debtor;* but the person to whom goods are consigned is merely an *agent.* Again, a consignment is returnable if it cannot be marketed; but goods sold are not returnable, except for some special reason, such as on account of damage or being of the wrong kind.

Difference between a Consignment and Goods on Sale or Return.—In the case of a consignment the person to whom the goods are sent is an *agent* of the sender; but in the latter case, the person to whom the goods are sent is merely an *optional purchaser.*

Special Consignment Books and Marks.—When consignments are very numerous, a special "Consignment Day Book" and a separate "Consignment Ledger" are generally kept. The total of the Consignment Day Book is credited monthly to a "Goods on Consignment Account" in the General Ledger. In examination work a Journal entry is usually sufficient. Consignments are distinguished by the name of the consignee, or by the name of the place to which the goods have been consigned, or by a special letter or number or by both; for example, "Consignment to A. Smith," or "Consignment to Calcutta," or "Consignment No. Ad 46."

Pro Formâ Invoice.—When goods are consigned, a *pro formâ* invoice is forwarded with them giving particulars as to the nature of the goods, number or quantity, weight, measurement, prices, marking, packing, etc. The goods are dealt with in the consignor's books usually at cost price, but the invoice to the consignee is

usually made out at a higher figure. If the consignment has been entered up in the consignor's books at figures in excess of cost (which would be irregular) credit will have been taken for profit before it has been realised. If, at balancing time, the consignment is still unsold, such profit must, of course, be transferred to a "Consignment Suspense Account."

Expenses on Consignment.—In consigning goods abroad certain expenses will be incurred, namely, carriage or cartage to the dock, dock dues, freight, marine insurance, etc. All these expenses must be charged direct to the Consignment Account, from the Cash Book if paid, but, if unpaid, by means of Journal entry, thus:—

Consignment Account	*Dr.*
To Railway Company (Carriage)	*Cr.*
„ Shipping Company (Freight)	*Cr.*
„ Insurance Company (Insurance)	*Cr.*
„ Dock Company (Dock Dues)	*Cr.*

When the goods reach their destination, there will be further disbursements, namely, dock dues, unloading and cartage, fire insurance, warehouse or storage rent, auction room expenses, brokers' fees, etc. These expenses will be defrayed by the consignee, and debited in his books to the account of the consignor. When settling with the consignor, the consignee will deduct all these charges, and also his selling commission on the *gross* amount of the sales, and remit only the balance, less, of course, any advance or previous payment on account.

Advance on Consignment.—In some cases it is usual for the consignee to remit a certain sum of money as an advance against the consignment. This is not a part payment, but merely an advance by way of security for the large amount of goods forwarded to the consignee. An advance should *not* be put to the credit of the Consignment Account, as it is not part of the proceeds of it. It should be posted to the credit of the consignee's personal account. It thus figures in the books as a liability. This is the correct position, for if the consignee does not sell the goods, the money will have to be repaid to him. On the Balance Sheet, the advance is shown sometimes as a liability, and sometimes as a deduction from the consignment on the assets side, the reason for the latter being that, in the event of the consignee selling the goods, the advance will count as part payment.

Bills Drawn against Consignments.—In some cases it is usual for the consignor to draw a bill on the consignee for a large portion of the value of the consignment, and to discount or sell such bill, so that he may not be prevented from having the use of the money until such time as the goods are actually sold and paid for. The bill is known as a documentary bill, and the procedure in connection therewith has been fully explained under Foreign Bills

in Chapter III. The discount or exchange charged by the bankers for cashing the bill may be dealt with in two different ways. If regarded as an ordinary financial expense, it is charged to Profit and Loss Account; if looked upon as a special expense in connection with the Consignment, it is debited to the particular Consignment Account.

Del Credere Commission.—To prevent any losses by Bad Debts falling upon the consignor, the latter sometimes arranges to pay the agent an extra commission, called a del credere (dĕl krĕd'-ĕr-e) commission. In return for this, the agent guarantees the proceeds of the consignment after the goods are sold; that is to say, the agent will pay the consignor whether he himself gets paid or not.

Account Sales.—This is a document showing the gross and net proceeds of the Consignment sold by the consignee for the account of the consignor, and detailing the various expenses and charges in connection therewith. The following is an example:—

Account Sales of 30 cases of Fancy Goods *ex.* ss. *Stormy Petrel*, sold by Trumper & Co., of Wellington, New Zealand, for the account and risk of Messrs. Williams & Sons, London.

W. & S.L. 1–15	15 cases of Fancy Goods . .	£12	180	–	–
W. & S.L. 16–30	15 cases „ „ . .	£15	225	–	–
			405	–	–
	Deduct Charges and Expenses:—				
	Cartage . . £ 4 10 6				
	Storage . . 6 15 10				
	Insurance . . 8 10 6				
	Commission 5%, £405 20 5 –				
			40	1	10
			364	18	2
	Less Advance		200	–	–
			£164	18	2
	E. & O. E.				
	Sight Draft for £164 18s. 2d. herewith.				
	TRUMPER & Co.,				
	Wellington,				
	10th March, 19—				

In some cases the consignee pays the outward freight and insurance, and these two items also then appear on the Account Sales.

On receipt of the latter document, the consignor will make a Journal entry in his books debiting the consignee (who has now become his debtor) and crediting the Consignment Account with the net proceeds.

Account Sales in Currency.—Where the Account Sales is rendered in currency, it will require to be converted into sterling before the figures can be dealt with. The rate for conversion will be the rate ruling on the day when the Account Sales is received. Should, however, payment be made at a later date, and a different rate be current when the money is actually received, a Journal entry must be made transferring any profit or loss on exchange either to a "Difference in Exchange Account," or, if preferred, back to the Consignment Account, both methods being in vogue.

Balancing the Consignment Account.—When the goods have been fully sold and the Account Sales duly entered up, the Consignment Account is balanced and the balance transferred to Profit and Loss Account, a debit balance denoting a loss and a credit balance representing a gain. When the goods are only partly sold, then the unsold stock, *plus* a proportionate amount of the freight, insurance, and other charges, must be credited and carried forward in the Consignment Account in order to find the profit or loss on the part actually sold. This unsold stock, plus charges, will be shown as an asset on the Balance Sheet. If the consignment expenses were not apportioned, the freight and insurance of the *whole* of the goods would be charged against the sale of *part* of them. If, at balancing time, no part of the consignment is sold, then the amount of the Consignment Account, *i.e.*, cost of the goods *plus* expenses, will be shown on the Balance Sheet as an asset under the heading of "Goods" or "Stock on Consignment."

Note.—Great care must be taken to see that the remaining goods are still worth the cost price. It by no means follows that if half of a consignment of £500 (£250) has been sold for £400 that there is a profit of £150. It may be that the consignment was a pure speculation and that the remaining goods will almost have to be given away.

Account Current between Consignor and Consignee.—Sometimes interest is brought into account with respect to the transactions connected with the Consignment, thus introducing an Account Current between the two parties. The consignee will charge interest on the various sums of money paid out, on advances, on remittances on account, and will likewise allow interest on the proceeds of the consignment, the interest running in each case up to the final date of settlement.

Formula for Consignment Outwards.—

(1) *Debit* Consignment Account, and *credit* a Goods on

Consignment Account, with the cost price of the goods, by means of Journal entry.

(2) *Debit* Consignment Account with the freight, insurance and other charges, and *credit* Cash Account if paid, or a Personal Account if unpaid.

(3) *Debit* Cash Account or Bills Receivable Account with the amount of any advance received, and *credit* personal account of Consignee.

(4) When the Account Sales is received :—

(*a*) *Debit* Consignee's Account and *credit* Consignment Account with the gross proceeds.

(*b*) *Debit* Consignment Account and *credit* Consignee's Account with the latter's expenses and commission.

(5) Balance the Consignment Account and transfer the balance to Profit and Loss Account. Any stock unsold must be *credited* before balancing, and brought down to the debit side.

(6) *Debit* Cash Account or Bills Receivable Account with any cash or bill received in settlement, and *credit* Consignee.

(7) Close Goods on Consignment Account by transfer to Trading Account.

Example.—Consigned goods value £825, to R. Lake, of Melbourne. Paid freight, etc., £65, and insurance £40. Drew on R. Lake at 3 m/d for £300 as an advance against consignment, and discounted the bill for £296 5s. Received Account Sales from R. Lake showing that part of the goods had realised gross £835 10s., and that his expenses and commission amounted to £87 15s. 6d. The stock unsold was valued, at cost price, at £275. Received draft at 2 months from R. Lake for amount due. Make the necessary entries in the Consignor's Journal, Cash Book, Ledger, etc., to record the above transactions.

JOURNAL.	*Dr.*			*Cr.*		
Consignment A/c . . . To Goods on Consignment . Value of goods forwarded to R. Lake, of Melbourne.	825	–	–	825	–	–
R. Lake . . . . . To Consignment A/c . . Gross proceeds as per Account Sales.	835	10	–	835	10	–
Consignment A/c . . . To R. Lake . . . Expenses and commission as per Account Sales.	87	15	6	87	15	6

Dr. CASH BOOK *Cr.*

Receipts.	Bank.			Payments.	Bank.		
To Bill Receivable . .	300	–	–	By Consignment A/c—			
				Freight . . .	65	–	–
				Insurance . . .	40	–	–
				Discount on Bill . .	3	15	–

BILLS RECEIVABLE BOOK

Date.	No. of Bill.	From Whom Received.	Led. fol.	Discount.	Amount of Bill.	Date of Bill.	Term.	Due Date.
		R. Lake . .			300 – –		3 mos.	
		R. Lake . .			447 14 6		2 mos.	

LEDGER

Dr. CONSIGNMENT TO R. LAKE, MELBOURNE. *Cr.*

To Goods . .	825	–	–	By R. Lake . .	835	10	–
„ Cash (freight) .	65	–	–	„ Stock £275			
„ do. (insurance) .	40	–	–	„ Expenses			
„ do. (discount on bill) . .	3	15	–	275/825 of £105 = 35 c/d	310	–	–
„ R. Lake (expenses and Commission)	87	15	6				
„ Profit and Loss A/c (profit) . .	123	19	6				
	1,145	10	–		1,145	10	–
To Balance b/d .	310	–	–				

Dr. GOODS ON CONSIGNMENT. *Cr.*

To Trading A/c .	825	–	–	By Consignment A/c .	825	–	–

Dr. R. LAKE. *Cr.*

To Consignment .	835	10	–	By Bill Receivable .	300	–	–
				„ Consignment .	87	15	6
				„ Bill Receivable .	447	14	6
	835	10	–		835	10	–

Dr. TRADING ACCOUNT. *Cr.*

				By Sales . . .			
				„ Goods on Consignment .	825	–	–

Dr.	PROFIT AND LOSS ACCOUNT.			Cr.
	By Trading A/c (gross profit) .			
	„ Consignment A/c (net profit) .	123	19	6

CONSIGNMENTS INWARDS

Definition.—An Inwards Consignment is the receipt of a quantity of goods by a person in this country from a person in some country or place abroad, for the purpose of sale. In fact, an Inwards Consignment is simply the reverse of the Outwards Consignment, that is, as it appears in the books of the consignee.

Difference between an Inwards Consignment and a Purchase.—When we buy goods of a person, the property in the goods passes to us; but when we receive a consignment, the ownership of the goods does not pass to us, but remains vested in the consignor. In the first case, the person is our *creditor*, and we are his debtor; in the second case he is the principal, and we are his *agent*. An inwards consignment is returnable if it cannot be sold; a purchase of goods is not.

Difference between an Inwards Consignment and an Ordinary Sale of Goods on Commission.—With an inwards consignment we receive actual possession of the goods, but in the other case we merely sell from samples. As regards the former we, therefore, record the sale in our books, and open a Ledger Account for the person to whom it is sold. In the latter case, when a sale has been effected, we pass the order on to the principal, booking up only our expenses and commission.

Advance on an Inwards Consignment.—On receiving possession of the goods, we may forward the consignor a sum of money, or allow him to draw on us, as an advance against the consignment. The advance will be debited to the personal account of the consignor, and will appear in our books as an asset, being an amount repayable to us in the event of our not being able to dispose of the goods.

Two Methods of Dealing with an Inwards Consignment.—The first method is to make no entry in the books when a consignment is received. Not having contracted a liability, we should not make our books appear as if we had. The receipt of the goods is, therefore, recorded merely in a memorandum "Consignment Inwards" or "Consignment Stock" Book. All expenses paid out in connection with the goods, such as dock dues, customs duties, unloading, fire insurance, cartage, storage, warehouse rent, are debited to the account of the consignor. The sales of the goods, either for cash or on credit, are credited to the consignor's account, which is also

debited with any advance and with the commission for selling the goods. The balance of the account shows the final amount due to the consignor, which is settled either by sight draft or bill.

The second method is, on receipt of the goods, to open a Consignment Inwards Account and debit it with the invoice value of the goods, at the same time crediting the consignor's account with a like amount. Inasmuch as the relationship of debtor and creditor does not as yet exist between the parties to the consignment, this procedure is undoubtedly a direct violation of principle; yet it is justified by some on the ground that it is felt necessary to have some record of the consignment in the financial books, a mere memorandum of it being deemed insufficient and unsatisfactory. The Consignment Inwards Account is debited with all expenses and with the selling commission, and credited with all sales of the goods. The balance of this account shows the profit made on the consignment, and is transferred to the personal account of the consignor. This latter account is debited with any advance, and is closed by being debited with the final draft or bill in full settlement.

Formula for an Inwards Consignment (Principal Method).—

(1) On receipt of the goods, no entry.

(2) On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignor.

(3) On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

(4) On selling the goods pertaining to the Consignment :—

(*a*) For Cash, *debit* Cash, *credit* Consignor.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignor, by means of Journal entry.

(5) *Debit* Consignor, *credit* Commission Account with the amount of the commission due, by means of Journal entry.

(6) Close Consignor's Account by *debiting* it with the final bill or draft in settlement.

Formula for an Inwards Consignment (Alternative Method).—

(1) On receipt of the goods, *debit* Consignment Inwards Account, *credit* Consignor, by means of Journal entry.

(2) On payment of the various expenses connected with the consignment, *credit* Cash, *debit* Consignment Inwards Account.

(3) On sending an advance, *debit* Consignor, *credit* Cash or Bill Payable as the case may be.

(4) On selling the goods pertaining to the consignment :—

(*a*) For cash, *debit* Cash, *credit* Consignment Inwards Account.

(*b*) On credit, *debit* Person to whom goods sold, *credit* Consignment Inwards Account, by means of Journal entry.

(5) *Debit* Consignment Inwards Account with the selling

commission as arranged, *credit* Commission Account, by means of Journal entry.

(6) Balance the Consignment Inwards Account, and transfer balance to Consignor's personal account. Any unsold stock must be entered on the *credit* side, and brought down as a *debit* balance after ruling off the account.

(7) Close Consignor's Account by *debiting* it with the final bill or draft in settlement. The value of any unsold stock must be entered on the *debit* side, and brought down as a *credit* balance after ruling off the account.

Note.—One great objection to this alternative method is that the full amount to the credit of the consignor might get paid to him though the goods were not realised.

Example.—Received Consignment of Goods from J. Rowell valued at £760. Terms :—Agent's Commission, 5 % on all Sales ; *del credere* Commission, 2½ % on credit transactions. Paid Customs Duties, £23 14s. 9d. ; Landing Charges and Carriage, £8 14s. 9d ; Fire Insurance, £9 10s. Sent J. Rowell an Advance of £225. Sold part of Rowell's consignment to H. Thompson for £420, part for Cash £475, and took part value £200 into stock for our own use. Paid Brokerage 1½%, £12. Sent J. Rowell an Account Sales, and sight draft for balance due. The stock remaining unsold was valued at £200. Make the necessary subsidiary book entries, and show the Ledger Accounts.

(1) **Principal Method :—**

JOURNAL.

		Dr.			Cr.		
	H. Thompson . . .	420	–	–			
	To J. Rowell . . .				420	–	–
	Sale of part of the Inwards Consignment.						
	J. Rowell	65	5	–			
	To Commission . .				65	5	–
	5% Agent's Commission, £1,095 = £54 15s.						
	2½% del credere Commission, £420 = £10 10s.						

PURCHASES BOOK.

	J. Rowell						
	Goods from Consignment .				200	–	–

Dr. CASH BOOK *Cr.*

Receipts.	Bank.			Payments.	Bank.		
To J. Rowell . . .	475	–	–	By J. Rowell—			
				Customs Duties . .	23	14	9
				Landing Charges, etc. .	8	14	9
				Fire Insurance . .	9	10	–
				„ J. Rowell (advance) . .	225	–	–
				„ J. Rowell (brokerage) .	12	–	–
				„ J. Rowell . . .	750	15	6

LEDGER

Dr. J. ROWELL. *Cr.*

To Cash—				By Cash . . .	475	–	–
Customs Duties .	23	14	9	„ Purchases . .	200	–	–
Landing Charges .	8	14	9	„ H. Thompson .	420	–	–
Fire Insurance .	9	10	–				
„ Cash (Advance) .	225	–	–				
„ Cash (Brokerage) .	12	–	–				
„ Commission . .	65	5	–				
„ Cash . . .	750	15	6				
	1,095	–	–		1,095	–	–

(2) Alternative Method :—

JOURNAL.

	Dr.			*Cr.*		
Consignment Inwards . .	760	–	–			
To J. Rowell . . .				760	–	–
Receipt of goods on consignment.						
H. Thompson . . .	420	–	–			
To Consignment Inwards .				420	–	–
Sale of part of the consignment.						
Consignment Inwards . .	65	5	–			
To Commission . . .				65	5	–
5% Agent's Commission, £1,095 = £54 15s.						
2½% Del credere Commission, £420 = £10 10s.						

Dr. CASH BOOK. *Cr.*

To Consignment Inwards A/c	475	–	–	By Consignment Inwards A/c—			
				Custom Duties . .	23	14	9
				Landing and Carriage .	8	14	9
				Fire Insurance . .	9	10	–
				„ J. Rowell . . .	225	–	–
				„ Consignment Inwards A/c :			
				Brokerage . . .	12	–	–
				„ J. Rowell . . .	750	15	6

LEDGER

Dr. CONSIGNMENTS INWARDS. *Cr.*

To J. Rowell	760	–	–	By Cash	475	–	–
„ Cash (Customs Duties)	23	14	9	„ Purchases	200	–	–
„ do. (Landing and Cartage)	8	14	9	„ H. Thompson	420	–	–
„ do. (Fire Insurance)	9	10	–	„ Stock unsold c/d	200	–	–
„ Commission	65	5	–				
„ Cash (Brokerage)	12	–	–				
„ Balance transferred to J. Rowell's A/c	415	15	6				
	1,295	–	–		1,295	–	–
To Balance b/d	200	–	–				

Dr. J. ROWELL. *Cr.*

To Cash	225	–	–	By Consignment Inwards	760	–	–
„ „	750	15	6	„ Transfer from Consignment Inwards A/c	415	15	6
„ Balance (Stock) c/d	200	–	–				
	1,175	15	6		1,175	15	6
				By Balance b/d	200	–	–

The £200 worth taken into stock for own use could either be journalised or entered in the Purchases Book as before, except that the amount would be credited to the Consignment Inwards Account, and not to J. Rowell's Account.

JOINT ADVENTURES

Definition.—A Joint Adventure is a partnership without the use of a firm name, limited to a particular speculation in which the two or more persons concerned agree to contribute certain specified amounts of capital and to share profits or losses in the same manner or in any other equitable proportion.

Nature of Joint Adventures.—A Joint Venture may consist of a joint consignment of goods, an underwriting transaction, a speculation in shares, or any similar form of enterprise.

Advantages of a Joint Venture.—One party may be able to buy at much lower prices and on far better terms than others. Another party may be in a position to sell at exceptionally good prices. A third party, who may not be favourably circumstanced either

for buying or selling, may, however, have special financial resources. Thus the combined services of the parties in a common adventure may make it a highly remunerative one.

The Methods of Procedure.—It is usual for one of the parties to be appointed to manage the joint venture, that is, to do all the buying and selling and to look after it. For these services he obtains an extra remuneration by being allowed to charge against the Joint Account a commission of so much per cent. on the amount of the sales, and, in some cases, on the amount of the purchases, sales, and expenses. Under these circumstances a Joint Account is opened and debited with the cost of the goods. Each of the other parties then remits his proportion of the cost, which is placed to the credit of their personal accounts, as this amount is payable back again to them plus their share of profit, or less their share of loss, as the case may be. The Joint Account is also debited with all expenses, charges, and commission ; it is likewise credited with all sales whether for cash or on credit. The balance of the Account then represents profit or loss to be shared in the agreed proportions. When the goods have been sold and paid for, then a remittance to each of the parties for the amount due to him will close the speculation.

In other cases, each of the parties concerned opens in his books merely an account for the Joint Venture, to record such of the transactions as he is directly concerned with. A general statement, prepared from information supplied by the parties, is rendered showing the profit on the joint speculation. Each party then debits the Joint Account and credits his Profit and Loss Account with his portion of such profit. There will then remain in one party's books a debit balance, and in the other party's books a credit balance, of the same amount. Payment of this balance by one party to the other will finally close the venture.

Sometimes a separate joint banking account is opened, and a separate set of books kept for the adventure. The transactions are then recorded like ordinary partnership transactions ; and, in such cases, interest on capital is generally charged, particularly when the parties interested have advanced unequal amounts.

Example 1.—Bought Goods from Martin & Son, £720 15s. 9d., and took from stock Goods value £220 10s. 6d., for a joint speculation with S. Singleton and D. Davis, profits divisible equally. Received S. Singleton's and D. Davis's moieties of speculation. Paid Charges and Expenses, £72 10s. 6d. Sold Joint Account goods for Cash, £1,220. Sent sight draft to Martin & Son. Charged as manager, 5 % Commission on sales. Rendered statements to Singleton and Davis with cheques for the amounts respectively due to them. Write up the subsidiary books and show the Ledger Accounts.

JOURNAL.

		Dr.			Cr.		
	Joint Account . . .	720	15	9			
	To Martin & Son . .				720	15	9
	For goods bought for a joint speculation with S. Singleton and D. Davis.						
	Joint Account . . .	220	10	6			
	To Goods on Joint A/c .				220	10	6
	For goods taken from stock for a joint speculation with S. Singleton and D. Davis.						
	Joint Account . . .	61	–	–			
	To Commission . . .				61	–	–
	5% on sale of goods £1,220, for the joint speculation with S. Singleton and D. Davis.						

Dr. CASH BOOK. Cr.

To S. Singleton . . .	313	15	5	By Joint A/c . . .	72	10	6
„ D. Davis . . .	313	15	5	„ Martin & Son . .	720	15	9
„ Joint Account . . .	1,220	–	–	„ S. Singleton . .	362	3	2
				„ D. Davis . . .	362	3	2

LEDGER.

Dr. MARTIN & SON. Cr.

To Cash . . .	720	15	9	By Joint A/c . .	720	15	9

Dr. JOINT ACCOUNT. Cr.

To Martin & Son .	720	15	9	By Cash . . .	1,220	–	–
„ Goods on Joint A/c	220	10	6				
„ Cash (Expenses) .	72	10	6				
„ Commission . .	61	–	–				
„ Balance (profit) :—							
S. Singleton ⅓ .	48	7	9				
D. Davis ⅓ .	48	7	9				
Profit and Loss ⅓	48	7	9				
	1,220	–	–		1,220	–	–

Dr. **S. SINGLETON.** *Cr.*

To Cash . . .	362	3	2	By Cash . . .	313	15	5
				„ Joint A/c (⅓rd profit) . .	48	7	9
	362	3	2		362	3	2

Dr. **D. DAVIS.** *Cr.*

To Cash . . .	362	3	2	By Cash . . .	313	15	5
				„ Joint A/c (⅓rd profit) . .	48	7	9
	362	3	2		362	3	2

Dr. **GOODS ON JOINT ACCOUNT.** *Cr.*

To Trading A/c . .	220	10	6	By Joint A/c . .	220	10	6

Dr. **COMMISSION.** *Cr.*

To Profit and Loss .	61	–	–	By Joint A/c . .	61	–	–

Dr. **TRADING ACCOUNT.** *Cr.*

				By Goods on Joint A/c	220	10	6

Dr. **PROFIT AND LOSS ACCOUNT.** *Cr.*

				By Joint A/c . .	48	7	9
				„ Commission . .	61	–	–

Example 2.—On 1st Feb., L. Wilson bought Goods value £620 and consigned them to D. Bowden as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £37 10s. 6d.; Insurance, £13 13s., and drew on Bowden at 2 months for £310 on account, discounting the bill on 4th Feb., for £307 8s. 4d. On receipt of the Goods on 1st March, Bowden paid Dock Dues and Cartage, £16 8s. 4d., and Government Duty, Insurance, etc., £28 17s. 6d. On 31st July Wilson received an Account Sales

Dr. JOINT CONSIGNMENT *Cr.*

Date.	Particulars.	Mths.	Interest.	Amount.	Date.	Particulars.	Mths.	Interest.	Amount.
19—					19—				
Feb. 1	To Goods	6	15 10 –	620 – –	June 30	By Gross Proceeds of Sale of Goods	1	3 19 8	955 12 6
,,	,, Carriage and Freight	6	19 –	37 10 6	July 31	,, Interest			3 19 8
,,	,, Insurance, etc.	6	7 –	13 13 –					
4	,, Discount on Bill	6	1 6	2 11 8					
Mar. 1	,, Dock Dues and Cartage	5	6 8	16 8 4					
,,	,, Govt. Duty & Insurance	5	12 1	28 17 6					
June 30	,, Storage	1	2 1	25 – –					
,,	,, Sundries, Brokerage, and Expenses of Sale	1	5 2	62 – –					
July 31	,, Interest			18 3 6					
,,	,, Balance (Profit)— L. Wilson ½ £67 13 10 D. Bowden ½ 67 13 10			135 7 8					
				959 12 2					959 12 2

Note.—Interest at 5 % per annum for so many months is found by the following rule: "Call the pounds pence, multiply by the number of months, and the result will be the required Interest." Thus, 620d. = £2 11s. 8d.; £2 11s. 8d. × 6 = £15 10s.

In Wilson's Ledger.

Dr. JOINT CONSIGNMENT WITH D. BOWDEN. *Cr.*

Date.	Particulars.	Mths.	Interest.	Amount.	Date.	Particulars.	Mths.	Interest.	Amount.
19—					19—				
Feb. 1	To Goods	6	15 10 –	620 – –	Feb. 1	By Bill Receivable at 2 m/d	4	5 3 4	310 – –
,, ,,	,, Carriage and Freight	6	19 –	37 10 6	July 31	,, Interest			5 3 4
,, ,,	,, Insurance	6	7 –	13 13 –	,, ,,	,, Balance (due from Bowden) c/d			443 3 2
4	,, Discount on Bill	6	1 6	2 11 8					
July 31	,, Interest			16 17 6					
,,	,, Profit and Loss A/c (share of profit)			67 13 10					
				758 6 6					758 6 6
July 31	To Balance (due from Bowden b/d			443 3 2	July 31	By Cash			443 3 2

In Bowden's Ledger.

Dr. JOINT CONSIGNMENT WITH L. WILSON. *Cr.*

Date.	Particulars.	Mths.	Interest.			Amount.			Date.	Particulars.	Mths.	Interest.			Amount.		
19—									19—								
Feb. 1	To Bill Payable, due 4 Apr.	4	5	3	4	310	–	–	June 30	By Gross Proceeds of Sale of Goods	1	3	19	8	955	12	6
Mar. ,,	,, Dock Dues and Cartage.	5		6	8	16	8	4	July 31	,, Interest					3	19	8
,,	,, Govt. Duty & Insurance	5		12	1	28	17	6									
June 30	,, Storage	1		2	1	25	–	–									
,,	,, Sundries, Brokerage, and Expenses of Sale	1		5	2	62	–	–									
July 31	,, Interest					6	9	4									
,,	,, Profit and Loss A/c (Share of Profit).					67	13	10									
,,	,, Balance (due to Wilson) c/d					443	3	2									
						959	12	2							959	12	2
July 31	To Cash					443	3	2	July 31	By Balance (due to Wilson) b/d					443	3	2

showing that on 30th June the Goods had realised gross £955 12s. 6d., and that Bowden's disbursements made on the same date were Storage £25, Sundries, Brokerage, and Expenses of Sale, £62. Bowden also enclosed a sight draft for amount due at 31st July. Prepare a general statement showing the result of the venture, and write up the accounts in Wilson's and Bowden's Ledgers respectively. Interest is to be brought into account at the rate or 5 % per annum, and may be calculated by months instead of days.

Example 3.—B. Black and W. White were partners in the following scheme, Black to take five-ninths and White four-ninths of the profits. They agreed to guarantee the subscription at par of 85,000 shares of £1 each in a Company, and to pay all expenses up to allotment, in consideration of the company issuing to them 11,500 other shares fully paid. Black provided cash for the following expenses :—Registration and Fees, £114 ; Advertising, £2,175 ; Printing, Stationery, and Prospectuses, £225. White supplied cash for remainder :—Rent of Office, £40 ; Secretary, etc., £95 ; Petty Cash and Sundries, £25 17s. 3d. ; Stamps, £78 ; Solicitor's Charges, £237. Applications fell short of the 85,000 shares by 3,500 shares, and by arrangement White found the cash in full for that number on the Joint Account. The Company handed Black and White the 11,500 shares. Black and White then sold all their shares at 16s. 3d. each, less brokerage 1½d. per share. White received the net proceeds of 5,000 shares, and Black the net proceeds of the remainder. Make out the Joint Account, and also the separate accounts of the partners, showing their respective shares of the profit, and the amount due from one to the other in settlement.

Dr. JOINT VENTURE. *Cr.*

To Black—				By Black—			
Registration and Fees	114	–	–	Proceeds of Sale of 10,000 Shares @ 16s. 1½d. net	8,062	10	–
Advertising	2,175	–	–	„ White—			
Printing and Prospectuses	225	–	–	Proceeds of Sale of 5,000 Shares @ 16s. 1½d. net	4,031	5	–
„ White—							
Rent of Office	40	–	–				
Secretary, etc.	95	–	–				
Petty Cash and Sundries	25	17	3				
Stamps	78	–	–				
Solicitor's Charges	237	–	–				
„ White—Cash for shares not taken up	3,500	–	–				
„ Balance (profit) :							
Black 5ths	3,113	5	5				
White 4ths	2,490	12	4				
	12,093	15	–		12,093	15	–

Dr. B. BLACK. *Cr.*

To Joint A/c—Proceeds of Sale of 10,000 Shares @ 16s. 1½d. net	8,062	10	–	By Joint A/c—Registration and Fees	114	–	–
				Advertising	2,175	–	–
				Printing and Prospectuses	225	–	–
				„ Joint A/c—⅝ths of Profit	3,113	5	5
				„ Balance (due to W. White) c/d	2,435	4	7
	8,062	10	–		8,062	10	–
To Balance (due to White) b/d	2,435	4	7				

Dr. W. WHITE. *Cr.*

To Joint A/c—Proceeds of Sale of 5,000 Shares @ 16s. 1½d. net	4,031	5	–	By Joint A/c—Rent of Office	40	–	–
				Secretary, etc.	95	–	–
				Petty Cash and Sundries	25	17	3
				Stamps	78	–	–
„ Balance (due from B. Black) c/d	2,435	4	7	Solicitor's Charges	237	–	–
				„ Joint A/c—Cash for Shares not taken up	3,500	0	–
				„ Joint A/c—⅝ths of Profit	2,490	12	4
	6,466	9	7		6,466	9	7
				By Balance (due from B. Black) b/d	2,435	4	7

QUESTIONS ON CHAPTER V

A

1. What is meant by an Outwards Consignment ?
2. Explain the following terms : Consignor, consignee, commission.
3. What is the difference between a Consignment and a Sale of goods ?
4. What is the difference between a Consignment and Goods on Sale or Return ?
5. How are consignments distinguished when they are very numerous ?
6. Explain the use of a *pro formâ* invoice in connection with consignments.
7. What are the usual expenses in connection with a Consignment Outwards, and how are they treated (*a*) when paid, (*b*) when not paid ?
8. What is meant by an Advance on Consignment, and how should it be treated in the books ?
9. Explain the terms, " bills drawn against consignments," " del credere commission."
10. What is an Account Sales, and what entries are necessary in the books when one is received ? What further steps will be necessary if the Account Sales is rendered in currency ?
11. How and when is a Consignment Account balanced, and when does it appear on the Balance Sheet ?

B

1. Define a Consignment Inwards. How does it differ from a Consignment Outwards ?

2. Explain the difference between a Consignment Inwards and (*a*) a Purchase of goods, (*b*) an ordinary Sale of Goods on commission.

3. What two methods are there of treating an Inwards Consignment? Outline them briefly.

4. Supposing part of an Inwards Consignment is taken by the consignee for his own use, how should it be dealt with in his books?

5. How does the consignee recoup himself for his expenses connected with the consignment, and how does he obtain his commission?

6. When a consignee renders an Account Sales what entries will be necessary in his books? How is an Advance on Consignment treated in his books?

7. Define a "Joint Adventure." What does it consist of?

8. What advantages are there in a joint adventure over a speculation on one's own account?

9. What methods of procedure are there in dealing with joint ventures from a book-keeping point of view? Outline briefly the most usual one.

10. When goods are taken from one's own stock for the purpose of a joint adventure with others, how should they be dealt with in the books?

11. When different persons enter into a joint speculation, and each one takes some part in the transactions connected with it, how is the profit of the venture ascertained, and how is a final settlement between the parties effected?

EXERCISE V

1. Richard Random and Sons shipped goods to Paul Gold, their agent at Capetown on 1st September, and sent therewith a *pro formâ* invoice for £578 (goods £500, freight £60, and insurance £18). On 28th October, Paul Gold sent home an Account Sales, from which it appeared that a portion of the goods had realised £460; and, deducting expenses £10 and commission £25, he enclosed a draft at three months' for the balance. The stock remaining unsold amounted, at invoice prices plus expenses, to £280. On 2nd November, he sent home another Account Sales, which showed that the balance of the consignment had realised £320; which, less £8 expenses and £10 commission, he remitted by a three months' draft.

Show how the above transactions should appear in the books of Richard Random and Sons.—(*Royal Society of Arts.*)

2. What is an "Account Sales"? In what particulars (if any) does it differ from a "Consignment Account"?

On 15th Oct., Delmaine Bros., London, shipped to Donnison & Sons, Port Elizabeth, 60 cases of mixed Sheffield goods. These goods were invoiced *pro formâ* at £32 10s. per case.

The London payments in connection with this consignment were:—Insurance, £10 12s.; freight, £54 12s.; sundry charges, £3 15s.

The payments made by Donnison & Sons, in South Africa, were:—Storage, £16 12s.; Landing charges, £6 10s.; Insurance, £2 11s.

On 15th Dec., Donnison & Sons sold 30 cases of goods at £45 per case; on 17th Dec., 25 cases at £50 per case; and on 19th Dec., the balance of the consignment at £51 per case. All the above sales were effected for prompt cash. A commission is payable to Donnison & Sons of 2 % on all sales plus 1½ % del credere commission.

On 1st Nov. Delmaine Bros. drew a Bill on Donnison & Sons for £1,000. This draft was duly accepted.

Prepare an "Account Sales" showing the result of the above consignment, and show how the transactions would appear in the books of Delmaine Bros. —(*London Chamber of Commerce.*)

3. J. Moss & Co., London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance,

and charges £55, drawing on him at 90 days for £1,300. They discount the bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Record the above transactions in the books of J. Moss & Co.—(*London Chamber of Commerce.*)

4. Isaac Solomon of London, Wine and Spirit Exporter, shipped to Davis & Co. of Bombay, 320 cases of Brandy at 23s. 6d. per case, f.o.b. He disbursed by way of Insurance £4 17s. 6d., and £8 15s. for Freight, forwarding by mail, in due course, Invoice amounting to £389 12s. 6d.

The goods were sold at an average price of 18½ Rupees per case. The charges were, in respect of Commission ⅛ths Rupee per case, 32 Rupees for delivery, rent, etc., and 8 Rupees for postage, etc. Davis & Co. sent forward Account Sales with a Draft at sight (sterling) on London, taking the Rupee at 1s. 6½d. Make out the Account Sales, and show how the respective entries would appear in Solomon's Books.—(*London Chamber of Commerce.*)

5. Prepare the necessary Journal Entry for the transaction below and post same to Ledger:—

Invoice of chain shipped per s.s. *Falcon*, London to Bombay via Suez Canal, and consigned to Messrs. Larrissa & Co., Bombay, for sale and returns, by Messrs. Johnson, Gibbs & Co.

C	6 short link chains, weighing 155 cwt. 2 qrs. at 12s. per cwt.			£93 6 -
Bombay.	Charges.			
1/6	Freight on 7 tons 15 cwt. 2 qr. 0lb. at 30s. and 10 % primage	£12 16 7		
	Bill of Lading and Postages . . .	2 6		
	Insurance on £110 at 10s. and Duty . .	11 6		
				13 10 7
				£106 16 7

E. & O. E.
London, 1st January, 19—

—(*London Chamber of Commerce.*)

6. Referring to the preceding question the following is a copy of the Account Sales rendered by the Consignees. Prepare the necessary Journal and Ledger entries in the books of both Consignor and Consignee.

Account Sales of chains ex s.s. *Falcon* from London, sold by the undersigned Larrissa & Co. on account and at the risk of Messrs. Johnson, Gibbs & Co.

C	6 chains weighing 155 cwt. 2 qrs. o lbs. at Rs. 11 per cwt.			Rs. 1708 11 8
	Charges.			
Bombay.	Import Duty ad valorem Rs. 1708 11 8 at 1 %	17 1 4		
1/6	Wharfage, Landing, Storing, Delivery, Rent, Fire Insurance, Commission and *del credere* at 10 %	170 13 11		
				187 15 3
				Rs. 1520 12 5

E. & O. E.
Bombay, 15th February.

Remitted by Demand Draft on London at exchange of 1s. 4d. . £101 7 8

—(*London Chamber of Commerce.*)

7. Messrs. Lux and Lucifer, Birmingham, consign on February 1st, to M. Marconi, of Milano, 500 " Radiant " Electric Lamps, invoiced at 18s. each, and pay Freight £5 18s. 6d., and Insurance £2 15s. One hundred and twenty-five Lamps are damaged and rendered worthless by storm, and M. Marconi receives £72 in settlement from Underwriters. He sells 250 Lamps for £240, and on April 4th sends Account Sales and Bankers' Draft for balance due to the Consignors, after charging his Agency Expenses, £5 10s. and Commission £15 12s. Give the Accounts as they would appear in Lux and Lucifer's Ledger.—(*West Riding of Yorkshire.*)

8. C and D buy on joint account 1,000 Mining Shares at 30s. plus expenses £10. C contributes one-third and D two-thirds of the price (all the monies passing through a Joint Banking Account). Six hundred Shares are sold at 32s. 6d. less expenses £7 5s., and 310 Shares are sold at 31s. less £5 expenses. They divided the Balance of the Shares at cost price, and also any Profit or Loss, in proportion to their original contributions. Prepare Accounts showing the position at the close of the venture.—(*West Riding of Yorkshire.*)

9. Black and White entered into partnership upon equal terms as to profits or losses of the venture, for the purpose of perfecting an invention with a view to its sale to a Syndicate. No interest was to be paid upon Partners' Capital prior to division of results. Black contributed £300 and White £150 to cover the cost of experiments, White giving his personal services without salary.

Upon the completion of the necessary experiments the purchases and expenses were found to have amounted to £478. Black then advanced a further £50, and White paid £22 for Patent fees, etc.

The invention was sold by them to a Syndicate for £1,000 in cash, which was paid to them, and 1,000 fully paid shares of £1 each in the Syndicate, and these were duly allotted.

Upon dissolving the partnership, White arranged to take over the stock of materials at an agreed valuation of £36, and undertook to discharge outstanding liabilities (if any). Black consented to take over the 1,000 fully paid shares at an agreed valuation of £50.

Prepare the accounts necessary upon the dissolution of partnership.—(*Royal Society of Arts.*)

10.

Jan. 4.	Received from A. Lemoine, Bordeaux, invoice of wine shipped on joint account (profit or loss to be divided equally)	£254	12	6
7.	The shipment of wine arrived. Paid dock charges on same	4	6	2
9.	Paid Custom House duties on shipment of wine	50	–	–
10.	Sold to J. Carey part of the shipment of wine	138	10	6
14.	Admitted J. Carey's claim for damaged goods, part of those sold him on 10th inst.	4	8	4
16.	Sold remainder of shipment of wine, for Cash	237	4	6
16.	Purchased Bill on Bank of France for net proceeds, less our share of Profit. Remitted same to A. Lemoine, with account sales of the shipment.			
30.	Paid claim of the purchaser of the Wine sold on 16th inst., for damaged goods	8	3	6

Enter the above in Journal and Cash Book, and show the Joint Account and Lemoine's Account in the Ledger.—(*Civil Service, Second Division Clerks.*)

11.

Jan. 5.	Shipped per s.s. *Ravenna* to Hong Kong, consigned to Ah Hee & Co., on equal shares with them as follows :—							
	Goods (chemicals)			600	13	–		
	Goods (sundries)			98	1	8		
				698	14	8		
	Our Commission			17	9	4		
	Insurance			7	10	–		
	Freight			26	8	9		
							750	2 9
6.	Drew Bill at 90 d/s for $5,455.54 on Ah Hee & Co., and sold it with documents attached to Hong Kong and Shanghai Bank at 2/9, receiving Cheque for						750	2 9
10.	Paid by Cheques :—							
	Royal Exchange Corporation (for insurance on *Ravenna*,						7	10 –
	Peninsular and Oriental S. N. Co. (freight on ditto)						26	8 9
June 4.	Received from Ah Hee & Co. Account Sales of Goods per *Ravenna* :—							
	Gross proceeds			$6,872.52				
	Charges			326.17				
	Their Commission			171.82				
5.	Drew Bill on Ah Hee & Co. for $460, our share of net proceeds of shipment per *Ravenna* and sold it to Hong Kong and Shanghai Bank at 2s. 8¾d., receiving Cheque						62	15 5

Record the above in Journal and Cash Book, and show the Consignment Account in the Ledger.—(*Civil Service, Second Division Clerks.*)

12. On the 1st July, our one-third share of Hansard Estate in Jamaica stood indebted to us £3,175 6s. 2d. On the 2nd August our partners in Jamaica, J. and W. Shirley, advise us that they have shipped 60 casks sugar, per *Minerva*, to Liverpool, which we have insured with the Globe Assurance Co., at £1,700 at £9 9s. 0d. per cent., policy 5s. 6d. per cent.—£165 6s. 6d., and we charge commission £8 10s. 0d. They also advise that they have shipped 20 hogsheads sugar, per the *Neptune* to London, for sale, which we have also insured with the Globe Assurance Co., at £600 at £5 5s. per cent., policy 33s.—£33 3s. 0d. Our commission £3. On the 17th, we accepted J. and W. Shirley's two drafts; one for £220 14s. 0d., due October 2nd, the other £170, due October 12th, on their own account. On the 18th we pay J. Gray £173 15s. 0d. on account of the estate. On the 20th we sell sundry persons 25 hogsheads sugar, which had formerly been on hand, the net proceeds of which amount to £730 16s. 3d. On the 23rd we paid Smith £42 14s. 0d. On the 10th September we accept on Shirley's own account their draft £120, due 2nd November. On the 20th we ship goods, per *Sailor Prince* for account of this estate, which amount, with charges, commission, and insurance, to £537 6s. 2d., and on Shirley's own account goods to the amount of £440 1s. 0d. On the 25th the agents in London inform us of having sold the 20 hogsheads, and enclose Bills for the proceeds, £625 2s. 0d. Required the best method the exhibit these transactions in the plainest and most satisfactory manner. —(*Lancashire and Cheshire Union.*)

13. The ship *Enid*, value £20,000, is owned as follows :—

W. James owns $\frac{1}{10}$th.
F. Edwards owns $\frac{1}{5}$th.
Morrison & Co. owns $\frac{2}{5}$ths.
Peters & Son own $\frac{3}{10}$ths.

She is loaded with a cargo, part of which, valued at £6,000, is shipped on owners' account, and on the remainder, value £2,000, freight amounting to £100 is paid in cash. The owners' share of the cargo is insured for the outward voyage for £7,000, at a premium of 1 %, and the ship is insured for the outward and homeward voyages for £22,000, at a premium of 1½ % (both premiums being paid in cash). The outward voyage is made in safety, and the owners' share of the cargo is sold for £7,000 ; and for the return voyage the ship is loaded with a cargo (not on owners' account), the freight on which amounts to £800. Bills for this amount and for the net proceeds of the cargo sold are safely remitted home by the consignee. On the voyage back the ship is lost, and the sum for which she was insured is paid, all but £3,000, which is unpaid owing to the bankruptcy of one of the underwriters. This amount cannot be recovered, and must be written off as a bad debt.

Make the Journal entries required for the whole of the transactions recorded, and draw up a statement showing the financial position of the respective owners after the accounts are closed.—(*Civil Service, Second Division Clerks.*)

14. The following letter is received by Warren & Co. from their Calcutta correspondents :—

Messrs. Warren & Co.,
London.

Calcutta, 8*th October*.

GENTLEMEN,

After protracted negotiations Messrs. Donaldson & Co. have offered to pay a composition of 15s. in the £, and we have thought it best to accept this settlement on your behalf. We have accordingly received from them that dividend on, and in full discharge of, the invoice of £440, which you sent us last June for collection, and we hold the amount to your credit in general account.

We are shipping to you per *Ocean Queen* a consignment of Rice on our Joint Account, the invoice for which, amounting to £734 19s. 6d., we enclose together with the Bill of Lading and Policy of Insurance. We have drawn on you at 3 months' sight against these documents for £500 in favour of F. Wright.

Please credit Messrs. Stevens & Co. £500 against our general account, and debit Messrs. Lewis & Co. £350 on No. 2 Account, under the usual advice.

We enclose a Bill on the Chartered Mercantile Bank £1,000 for collection at maturity to our consignments inward account.

We are, yours faithfully,
MARCHMONT & CO.

Make in the books of (1) Marchmont & Co., (2) Warren & Co., the Journal entries corresponding to all the transactions named in this letter. Assume that the invoice of £440 already stands to the *Dr.* of Donaldson in Warren's books.—(*Civil Service, Second Division Clerks.*)

15. The following two Statements represent a consignment of goods sent out by a London House to Bombay with the account sales of such goods as rendered by the Bombay House. You are asked to make the necessary Journal and Cash Book entries in the Books of the two Houses, and in the case of the English House to show the Net Profit upon the transactions.

London, *1st January.*

Messrs. Ardkashir & Byjamji, Bombay.
In Consignment from
Faudel Phillips & Sons.

S

8 Cases various, shipped per s.s. *Ballarat*,			
1 & 2 = 2 cases contg. (2′ 9″ × 3′ 3″ × 3′ 6″ = 31′ 3″ each case) 500 pieces English Art Needlework and Traced Goods, etc. (as per specification).	75	10	6
3 & 4 = 2 cases, each contg. 25 only (5′ 4″ × 3′ 0″ × 2′ 4″ = 37′ 4″ each) 50 only Brown Cowhide Gladstone Bags, with Shoes and Clips, 20 inches, at 10½d. inch = 17/6 each . .	43	15	0
5 = 1 case contg. (5′ 7″ × 3′ 1″ × 2′ 6″ = 43′ 0″) 30 only Brown Cowhide Kit Bags, 18″ at 10½d. per inch = 15/9 each	23	12	6
6/8 = 3 cases each, containing 38 spdls. (2′ 8″ × 2′ 10″ × 40″ = 30′ 3″ each) 90 spdls. "Peacock Brand" Fingering Yarn, 2, 3, and 4-ply, in Black, White, Clericals, Drabs, Heathers, per spdl. of 6 lbs. at 20/6	92	5	–
	235	3	–
8 Packing Cases, expenses and materials £2 15 –			
8 ,, ,, cartage to Docks and Shipping . . . . . 1 – –			
Marine Insurance on £250 at 1¼ % . . 2 10 –			
Freight prepaid at 40/- per ton of cubic feet . 13 10 11			
	19	15	11
E. & O. E.	£254	18	11

Total measurements, 270 ft. 11 in.

Account Sales of goods sold by
Ardkashir & Byjamji, Bombay,
For Account of Faudel Phillips & Sons,
Newgate Street, London, E.C.

March 13th. Bombay.

S

ex Cases				Rs.	as.	pcs.
½	500 pcs. Embroidered goods, etc., realising in all (as per detail Account A/c) . .			1,600	–	–
¾	50 only Gladstone Bags . .	20	Rs. 17/8	875	–	–
5	30 ,, Kit ,, . .	18	Rs. 16/–	480	–	–
⅛	90 Spdl. Yarn "Peacock Brand"		Rs 22/–	1,980	–	–
				4,935	–	–

Charges paid out, etc.	Rs.	as	
Landing, Haulage, Sundries. . . .	18	0	
Commission 5 %	246	12	
Duty, etc., 5 %	246	12	
Bank Brokerag 1/16 %	2	12	
	514	4	–
	Rs. 4,420	12	–

E. & O. E.

Draft forwarded at Rs. 1/4 = £294 14/4.

—(*London Chamber of Commerce.*)

16. On January 1st, W. Smith of London, consigned per s.s. *Dilwara*, to B. Ready at Cape Town 500 tons of iron invoiced at £4 per ton. B. Ready paid charges amounting to £20 16s. 8d. On February 20th, Ready sold 400 tons at £4 10s. per ton, and forwarded to W. Smith a sight draft with account sales. B. Ready's commission was 2½ %. Show the above transactions as they would appear in the books of Smith. Also prepare account sales and form of draft.—(*London Chamber of Commerce.*)

17. Feb. 4 Received the following letter:—

Manila, 20*th Dec.*, 19—

DEAR SIRS,—Herewith I hand you invoice of shells shipped, as arranged, for sale on Joint Account of your firm and myself, and I have drawn on you for amount at 4 months' sight through the Chartered Bank. Freight and Insurance forward—Yours truly,

W. A. SIMS.

(Inclosure in foregoing.)

Invoice of 159 cases of Shells shipped by the undersigned per s.s. *Ajax*, Capt. Rogers, and consigned to Messrs. Burt & Co. for Sale on Joint Account of them and W. A. Sims.

		£	s.	d.
W.A.S.—301-362.	62 cases Pearl Shells, 315 cwt. at 6/8	105	–	–
W.A.S.—363-397.	34 cases Cameo Shells, 204 cwt. at 5/-	51	–	–
W.A.S.—398.	1 case Turbo, 7 cwt. at 7/-	2	9	–
W.A.S.—399-439.	40 cases Fancies, 164 cwt. at 8/-	65	12	–
W.A.S.—440-481.	22 cases Museum Specimens, value	75	–	–
		£299	1	–

Feb. 4.	Accepted Sims's bill, presented by Chartered Bank (No. 319)			£299	1 –
4.	Paid Chartered Bank, by cheque, for freight, etc., of shells			93	7 6
Mar. 1.	Retired Sims's bill (No. 319) and obtained Documents for Sims's consignment				
	Cheque to Chartered Bank	£297	11 2		
	Discount	1	9 10		
Mar. 10.	Sold at public auction, by Watts & Co., part of Sims's consignment, viz.:—Pearl Shells—				
	51 cases, 255 cwt., at 14/-			£178	10 –
	10 ,, 54 cwt., at 12/-			32	8 –
	1 case, 6 cwt., at 7/-			2	2 –
	Cameo Shells—				
	34 cases, 204 cwt., at 8/-			81	12 –
	1 case Turbo, 7 cwt., at 6/-			2	2 –
	40 cases Fancies, 164 cwt., at 8/6			69	14 –
				£366	8 –
	Auctioneer's commission, £9 3s. 2d.				
Mar. 17.	Received of Watts & Co. by cheque			357	4 10
20.	Sold for Cash part of 22 cases Museum Shells to S. Stone for			35	– –
24.	Paid City Scavenger for taking away remainder of Museum Shells from Sims, which are worthless				7 6
26.	Sent Account Sales of Shells, per *Ajax*, to W. A. Sims. Our Commission, £9 16s. 1d.				

Record the above in Journal and Cash Book, and show the Joint Account in the Ledger.—(*Civil Service, Second Division Clerks.*)

18. John Black and Edward Thompson agree to import Swedish timber into this country. On 1st May, they open a Banking Account under the style of "Black & Thompson" for £2,400, towards which Black contributes £1,400 and Thompson £1,000, they dividing Profits or Losses *pro rata* to their cash contributions (say $\frac{7}{12}$ths and $\frac{5}{12}$ths respectively). They remit to their agent in Sweden £1,800 to pay for the timber purchased out there, and, later on, a further £100 in settlement of his Account. The Freight, Insurance, and Dock charges are all paid on this side, and, together amount to £400. On 31st December, the various sales have realised £2,400 net, which enables them to repay themselves (taking no account of Interest) the cash respectively advanced by them on 1st May. The venture is then closed by Black taking over the balance of timber unsold for £380, and for which he pays a cheque into the Banking account. How much Cash Balance does this leave for final division by way of Profit, and how is the same apportioned between Black and Thompson as their respective share of Profit thus realised on the venture?—(*Institute of Bankers.*)

19. A shipment of coffee is made on account of A, B, and C on these conditions:—A purchases in Rio Janeiro, and draws on B in London for the cost. The shipment is consigned to C in New York for sale. Up to £50 the whole of the profits to go to B. Any profit over £50 goes to C, until his share reaches £100, and any further profit resulting after these charges are met is to be divided in the proportion of $\frac{2}{3}$ to A, $\frac{2}{3}$ to B, and $\frac{1}{3}$ to C. The shipment realises net proceeds £6,000, for which C remits bills to B, and a profit of £500. Make in the books of B, *with full narrations*, the Journal entries corresponding to the receipt of the net proceeds and the consequent division of profits.—(*Civil Service, Second Division Clerks.*)

20. Brown, Jones and Robinson operate in a tripartite account in pig-iron, and purchase 10,000 tons at 48s. per ton, say, £24,000, and for which they contribute as follows:—

Brown finds cash for		£7,450
Jones gives his acceptance at 3 months for . . .	£8,000	
The discount on which is	100	
		7,900
And Robinson the balance in cash		8,650

Interest is credited to each adventurer at the rate of 5 % per annum from date the money is found until final settlement, the Net Profit or Loss (after payment of the above interest) being allocated among them *pro rata*, to the amount of capital each of them originally brings in. The pig-iron is held for six months, and then only realises £21,500, the venture resulting in a loss of £2,500. Divide up this loss among the three, first crediting each adventurer with the interest due to him under the above arrangement, and carry out the above conditions.—(*Institute of Bankers.*)

21.

Lewis & Co. sell and ship to Armstrong & Sons, of Iquique, sundry goods invoiced as costing.	£1,004	11	8
The freight, insurance, and dock charges were . . .	89	6	4
„ buying and shipping commission charged was . .	30	2	–
Total of Invoice was .	£1,124	–	–

Lewis & Co. drew on Armstrongs for that amount and secured an advance of £650 from the bankers through whom they were forwarding the documents. The draft was duly accepted.

At due date of draft Armstrongs paid one-half and gave a bill for the balance, plus 6 % interest per annum for 6 months.

The bankers were repaid their advance by Lewis & Co. and the extended bill was met at maturity by Armstrongs.

Frame Journal entries to record properly the whole of the above transactions in the books of—

1. Lewis & Co.
2. Armstrong & Sons.

Narrations are essential.—(*Civil Service, Second Division Clerks.*)

22. Make out for Stephens & Son, London, an Account Sales of 65 casks of fine Lard marked "A1," sold at 42s. 6d. per cwt., gross weight 185 cwt., tare 28 cwt. 2 qrs. The Lard was shipped per s.s. *Rameses* from Williams & Co. of New York. The following charges were incurred :—

Freight as per Bill of Lading	£15	15	8
Marine Insurance £350 at 25s. per cent., policy stamp 1s.			
Customs Dues		15	6
Unloading, Weighing, etc.	5	12	6
Expenses of Sale	2	10	8
Fire Insurance	13	13	0

Brokerage 7½ %
Commission 3 %

23. R. Righton received from L. Affleck of Montreal 600 barrels of fine Flour at 19s. 3d. per barrel. Righton paid Freight £27 10s., Insurance £7 15s. 6d., Storage £8 13s. 10d. He sold 325 barrels at 27s. 3d., and 275 barrels at 26s. 2d. per barrel respectively. He charged a Commission of 2½ % and forwarded a sight draft for amount due. Record the above transactions in R. Righton's books.

24. On March 1st W. Williams, a merchant carrying on business in London, consigned to his agent, S. Siegfried of Hamburg, 1,055 tons of Iron, invoiced *pro formâ* at 56s. 6d. per ton. On May 1st he received an Account Sales showing that the whole of the Consignment had realised 69,420 marks. Siegfried's disbursements amounted to 1,425 marks, and his commission was 2½ % on the gross proceeds. Siegfried remitted a bill in currency at 2 m/d for the amount due. The Carriage, Cartage, Freight and Insurance paid by Williams in connection with the Consignment amounted to £120. Assume the average value of the mark to be 1s., but that on the date the bill was paid the rate of exchange was 20.35 marks to the £ sterling. Record the above transactions in W. Williams' books.

25. Robson and Day entered into a joint speculation with the object of buying at sales any cheap rolling stock or machinery and re-selling same. Purchases, sales, receipts, and disbursements are made sometimes by Robson and sometimes by Day. They had no joint banking account, but each party worked the transactions through his own business. It was agreed that profits should be shared equally, and that interest at 5 % per annum should be reckoned on all cash received and paid. The following were the transactions :—

Jan.	5.	Robson bought locomotive for £620.
	15.	Robson paid carriage on same £15.
Mar.	18.	Day paid storage for same £1 10s. 6d.
	21.	Day paid insurance 12s. 6d.
June	4.	Day paid repairs £12 8s. 6d.
	28.	Day sold locomotive for £710.
July	4.	Day bought 520 tons rails at £3 5s. per ton.
	27.	Robson paid landing and transit charges £30.
Aug.	28.	Robson paid storage £3 10s. 6d.
Sept.	3.	Day sold rails at £3 10s. per ton.
	8.	Robson bought 2 cranes at £55 each.
	15.	Robson sold cranes for £125.

Raise accounts for the Joint Venture, and for both parties, and show how matters stand on 30th Sept.

26. Sykes & Son consigned Goods value £850 to Bailey & Co., their Belfast agents, on 21st Feb., and drew on them at 4 m/d for that amount. They discounted the bill on the same date, being charged £14 3s. 4d. for discount. On 31st March Bailey & Co. advised that they had paid £28 13s. 9d. for Freight and Landing Charges on account of the Consignment. On 31st May Bailey & Co. remitted £450 on account of proceeds, and on 31st Aug. they forwarded an Account Sales showing that the goods had realised gross £1,056, and charging their Commission of 3 % on that amount. Sykes & Son retired Bailey & Co.'s acceptance at maturity. Record the above transactions in Sykes & Son's books, and show the Ledger accounts.

27. On 21st Feb. Thomas Ruffles forwarded to Henry Crichton & Son on consignment 25 chests of Indigo at £51 per chest, paying £12 12s. 6d. for Freight. On 18th May he received an Account Sales dated 20th April showing that the Goods had realised £1,246 10s. 8d. gross, and that the following expenses had been incurred :—

Dock Dues and Insurance	£8 10 11
Cartage	2 15 6
Storage	3 4 7

Commission 3 %
Del Credere Commission 2½ %,
and enclosing a bill at three months for the amount due. Record the above transactions (*a*) in Ruffles' books, (*b*) in Crichton & Son's books. Show also the Account Sales.

28. T. Tohm of Norway and F. Friedley of England engaged in a joint speculation in timber. On 15th Jan. Tohm contributed £450 and Friedley £550, which amounts were paid into a joint banking account. The following were the transactions :—

Jan. 20. Bought cargo from A. Russphy. £724, less 5 % discount, and accepted his draft at 3 m/d for the net amount.
23. Paid expenses of loading, £36 15s. 6d.
31. Paid freight to London, £123 14s. 5d.
Feb. 21. Sold Greener & Co. logs £179 12s. 3d., and received cash less 2½ % discount.
26. Bought from A. Helfsky, for cash, cargo of timber, net, £1,027.
Mar. 25. Paid shipping charges and freight, £225 10s. 11d.
27. Sold F. Turner deals, net, £420, and received his acceptance at 2 m/d.
April 15. Sold L. Loti timber bought from A Russphy, £1,472 10s. 6d., and received his acceptance at 1 m/d.

The speculation was closed, and the stock of timber valued at £356 taken over by Friedley at the agreed figure of £356 less 10 %. Adjust the accounts between the partners as at 31st May, allowing interest on capital at the rate of 5 % per annum, and dividing profits or losses in proportion to capitals.

29. On 1st July P. Potter, a merchant trading in Edinburgh, consigned to his New York agent, K. Kettlewell, 1,150 tons of Iron, invoiced *pro forma* at 52s. 6d. per ton. He paid Freight and other charges amounting to £175 15s. 9d. On 1st Sept. he received an Account Sales showing that 222 tons had been sold at $15, 300 tons at $14.50, 176 tons at $14.25, and the balance at $14.75. K. Kettlewell deducted his Commission of 3 %, and

remitted a 60 days' draft in dollars for the balance due. Assume the average value of the dollar to be 4s. 2d., but that on the date of maturity of the bill the rate of exchange was 4.87 dollars to the £ sterling. Record the above transactions in P. Potter's books.

30. Messrs. A B & Co. of London purchase from E F & Co. of Glasgow, and sell and ship to Messrs. C D & Co. of Johannesburg, sundry goods to the value of £530. Freight, Insurance, Dock and other charges amount to £45, and A B & Co.'s commission is £25. Total amount of Invoice sent to C D & Co. is £600.

A B & Co. accept E F & Co.'s Draft for £530.

A B & Co. draw on C D & Co. for £600.

The Bank discount draft on C D & Co. for a charge of £3, and proceeds of draft are placed to credit of F B & Co.'s Bank Account.

Messrs. E F & Co. write and suggest that they will take £520 cash in place of draft. A B & Co. agree to this and send cheque for £520, receiving back their acceptance cancelled.

Make the necessary Journal entries for the whole of the transactions shown above as they should appear in the books of A B & Co. of London.

Narrations are essential.—(*Civil Service, Second Division Clerks.*)

REVISION EXERCISE V

1. State briefly the aim and object of good Book-keeping; what systems are at present in use, and whether, and for what reason, any preference should be given to one system over that of others.—(*London Chamber of Commerce.*)

2. Give a list of the books in use in the Counting House of a City Warehouseman, and explain the object of each. Name one Book, the keeping of which is of essential importance in a well-organised Commercial House.—(*London Chamber of Commerce.*)

3. Give a form of Cash Book, the proper keeping of which will give a maximum of results with minimum expenditure of time and labour.—(*London Chamber of Commerce.*)

4. Walter Robinson, who is a slate merchant, has recorded his transactions in the following Books:—

(*a*) SALES DAY BOOK, in which all sales to customers have been entered. The sales have been posted in detail to the debit of the customers' personal accounts in the "Sales Ledger."

(*b*) CASH BOOK. Only "Bank" items have been dealt with in this book, and all cash thus received and paid has been duly entered. Cash received from customers has been posted to their credit in the "Sales Ledger." Cash paid to creditors for goods purchased has been posted to their debit in the "Purchases Ledger." With these exceptions, no further posting has been done.

(*c*) PETTY CASH BOOK. This book, used for small cash payments, has been kept in funds by a weekly cheque passed through the "Cash Book."

(*d*) "SALES" and "PURCHASES" LEDGERS, as referred to above.

Statements from creditors and receipts have been kept on a file, but not otherwise dealt with. Except as detailed above, no further record of any kind has been kept by Robinson of his business transactions. Is Robinson's

system of book-keeping an efficient one? If not, what alterations or additions will be necessary, in order that he may be in a position to prepare proper annual accounts?—(*Royal Society of Arts.*)

5. John James bought Goods of Edward Rhodes, the Invoice value of which amounted to £367 10s. A discount of 7½ % was to be allowed off the account. One-half the net sum was to be paid in Cash, and Rhodes was to draw at 3 months upon James for the balance, plus 1 % for commission and at 4 % for discount. The transaction was carried out, and the Cash was duly paid; but, shortly before the bill fell due, James, on the plea that the Goods were not wholly disposed of, proposed to Rhodes to pay £50 in Cash, to have the present bill withdrawn, and to give his Acceptance for the balance, plus 30s. per cent. Commission and 6 % Discount. This was agreed to. The £50 was paid in due course, and the second Acceptance met at maturity.

Make the Journal and Cash Book Entries, giving effect to this transaction, and prepare James's Account as it should appear in Rhodes's Ledger, assuming his Books to have been properly kept.—(*London Chamber of Commerce.*)

6. Make up a Coal Trading Account (net quantities and moneys) from the following entries. Show the profit made and the shrinkage in weight.

Jan. 1. Stock on hand, net weight, 250 tons at 15s. 6d.
2. Bought 500 truck-loads of 7 tons each, colliery weight of 21 cwt. to the ton, at 6s. 4d. at the colliery.
,, Railway charges thereon at 6s. 10d. colliery weight.
3. Bought cargo, 1,240 tons, colliery weight, at 7s. 2d., f.o.b. Sunderland.
15. Freight to London and unloading, £315.
31. Sundry Sales, net weight:—
Large, 4,590 at 19s. 6d.
Small, 410 at 4s.
31. Cartage and expenses on Sales, 2s. 3d. per ton.

MEMO.—No Stock left.

—(*Chartered Accountants.*)

7. What is the average due date of the following instalments payable under a contract?

13th April	£3,500
11th May	£5,200
12th June	£2,300

Draw a bill to meet the total amount plus interest thereon at 5 % at 3 months from the average due date, marking stamp duty on same.

8. George Hargreave commenced business as a builder on 1st January. He owns a gravel pit, from which he obtains material useful to him in executing his building contracts. From the following figures, obtained from his books, you are required to prepare the gravel pit Working Account for the past year to 31st December, so as to enable him to charge the gravel he uses for his various contracts at the cost price per load. The gravel pit is leased to him for 24 years at a rental of £10 a year, and this he has duly paid. The equipment, consisting of the necessary screening machinery, etc., has cost him £552. The wages of the men at the pit for the year have been £247, while supplies to the department, issued from the general stores (as shown by the storekeeper's records) were implements, £43 15s. 6d., coal and coke, £20 5s. 5d., and sundries £11 11s. 1d. Sales of gravel at the pit to outside purchasers amounted to 1,568 loads at 2s. 6d. per load. Mr. Hargreave has used on his contracts during the year 2,304 loads of gravel, carted from his

pit with his own carts, to cover which he has charged his gravel pit Working Account 4½d. a load. In preparing the account you are required to provide for writing off the value of the equipment over the period of the lease, by equal annual amounts; and, as he allows the pit the benefit of any profit on outside sales, to charge the working account with interest at 5 % per annum on the equipment.—(*Royal Society of Arts.*)

9. What special instructions would you suggest should be given at the time of "Stock-taking" to the clerks who are responsible for checking inwards invoices and have charge of the Purchase Book and Purchase Ledger, so as to insure the accuracy of the figures representing purchases, expenses, and stock as appearing in the Trading Account for the period under review?—(*Royal Society of Arts.*)

10. The following Trial Balance was extracted from the books of Messrs. Angus MacAdam and John Westrum as on December 31st:—

	Dr.			*Cr.*		
	£	s.	d.	£	s.	d.
Angus MacAdam (Capital Account)				6,000	–	–
John Westrum do.				2,000	–	–
Angus MacAdam (Drawing Account	1,000	–	–			
John Westrum do.	300	–	–			
Land and Buildings	4,960	–	–			
Plant and Machinery	1,036	10	–			
Stock, 1st January	2,019	3	7			
Debtors and Creditors	1,596	15	–	1,362	13	3
Reserve for Doubtful Debts				66	3	–
Purchases and Sales	9,284	1	6	14,274	6	6
Returns Inwards	370	2	–			
Do. Outwards				870	2	–
General Expenses	150	6	–			
Manufacturing Wages	2,001	15	7			
Rates and Taxes	167	4	9			
Insurance	66	9	7			
Manufacturing Expenses	225	10	4			
Salaries	666	8	–			
Discount Account	39	4	1	29	18	8
Cash in hand	64	3	8			
Cash at Bank	655	9	4			
	24,603	3	5	24,603	3	5

The Partnership Agreement provides:—

1. That 5 % per annum shall be allowed upon Partnership Capital (as a charge to the Profit and Loss Account), and that such interest shall be credited to the Partners' Drawing Accounts.
2. That a Partnership Salary out of Net Profits (if and as made) of £300 per annum shall in the first instance be credited to Mr. Westrum's Drawing Account.
3. That the Net Profit (if any), after providing for the aforesaid Partner's Salary, shall be divided between the Partners *pro rata* to the amounts at the credit of their Capital Accounts, and shall be credited to their Drawing Accounts.

You are required to prepare Trading and Profit and Loss Accounts for the

year ended December 31st, and a Balance Sheet as on that date, subject to the following adjustments :—

Depreciation is to be charged as follows :—

2½ % on Land and Buildings.
10 % on Plant and Machinery.

The Reserve for Doubtful Debts is to be increased to 5 % on the Sundry Debtors.

The unexpired portions of the following expenses are to be carried forward :—

Rates	£27	1	9
Insurance	16	7	9

The Stock on hand on December 31st, was agreed at the value of £1,991 7s. 6d.—(*Royal Society of Arts.*)

CHAPTER VI

SELF-BALANCING LEDGERS

Definition.—A self-balancing Ledger is one whose balances, when extracted, form a complete Trial Balance. The expression "Self-balancing" Ledger is scarcely strictly accurate, but it is used as being less cumbrous than that of a Ledger "separately balanced by means of an aggregate account."

Object of Self-Balancing Ledgers.—Ledgers are made self-balancing in order that errors may be localised and checking confined within narrow limits. Books kept on double-entry principles are proved periodically by means of a Trial Balance. And, if the total debit of the Trial Balance does not equal the total credit, this shows that there is a mistake in the books *somewhere*. This information is satisfactory so far as it goes, but it is not sufficient for practical business purposes. We require to know *where* the mistake is, *in which ledger;* otherwise a considerable amount of time may be wasted in needless checking. For example, we might call over all the Sales Ledgers and not find any mistake, then all the Bought Ledgers, with the same result, and finally discover the error in the General Ledger. To obviate all this calling back or checking of books already accurate, and to locate the error or errors to the particular ledger concerned, a separate Trial Balance is obtained for each ledger. The ledgers are thus proved separately or in sections (see page 14); hence the use of the term **sectional balancing** in order to designate this particular procedure.

How Ledgers are made Self-Balancing.—Where several ledgers are in use, it is obvious that they will not balance of themselves, because the balances they contain will be one-sided. Thus the Bought Ledger will comprise all *credit* balances, the Sales Ledger all *debit* balances, and so on. Ledgers have therefore to be made self-balancing by means of an ingenious device called, in technical phraseology, an **Adjustment Account.**

Adjustment Account.—This is an extra account inserted at the back of a ledger for the double purpose of proving the ledger and of making it self-balancing. It is merely a record of the transactions already posted in the particular ledger, only in a summarised form instead of in detail. The debits and credits, however, are transposed. The balance of the Adjustment Account must be equal to the sum of the other balances in the same ledger, thus proving the ledger. It must also be on the opposite side, so that when a

Trial Balance is extracted, the total of the debits will equal the total of the credits.

Principle of Proof of Adjustment Account.—The principle of check underlying the Adjustment Account is proof by means of totals, based on the axiom that *the whole must be equal to the sum of all its parts.* Suppose, for example, we have the following debtors in our ledger, and that the undermentioned sales of goods, payments, returns, etc., take place, the balances remaining in each account would be as stated at the side :—

Debtors.	Goods Sold.	Goods Returned.	Cash Received.	Discount Allowed.	Bills Received.	Balances Owing.
	£	£	£	£	£	£
Atkins, A.	130	—	76	4	—	50
Roberts, R.	86	3	20	—	—	63
Rufus, R.	74	—	—	—	50	24
Philpott, P.	59	—	38	2	—	19
Lane, L.	42	—	19	1	—	22
Holland, H.	106	10	20	—	36	40
Cross, C.	78	—	57	3	—	18
Duke, D.	34	—	10	—	—	24
	609	13	240	10	86	260

The above transactions would, of course, be posted separately to the individual accounts of each of the debtors concerned. Now let us post the same transactions in summary or total into *one* Debtors' Account and balance it. We should then have the following :—

Dr. TOTAL DEBTORS' ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Goods . .	609	–	–	Jan. 31	By Returns . .	13	–	–
						„ Cash . .	240	–	–
						„ „ Discount . .	10	–	–
						„ „ Bills Receivable .	86	–	–
						„ „ Balance c/d .	260	–	–
		609	–	–			609	–	–
Feb. 1	To Balance b/d .	260	–	–					

The balance of this Total Account is equal to the sum of the separate balances shown in the previous analysis, thus proving the

posting, addition, subtraction, and balancing in the ledger to be correct.

Adjustment Account for Bought Ledger.—Adjustment Accounts are constructed for the Bought Ledger, and also for each of its subdivisions if there are several Bought Ledgers. All the items that have been posted in detail in the Bought Ledger must be posted in total to the Bought Ledger Adjustment Account and on the same side. For example :—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
Jan. 31	To Cash . .	543	10	6	Jan. 1	By Balance (total of Creditors as at this date) .	2,607	12	10
,,	,, Discount .	18	14	7					
,,	,, Bills Payable .	396	15	4					
,,	,, Returns and Allowances .	41	16	8	31	,, Purchases . .	743	19	11
,,	,, Balance c/d .	2,350	15	8					
		3,351	12	9			3,351	12	9
					Feb. 1	By Balance b/d .	2,350	15	8

The above Account would appear in the General Ledger. In the Bought Ledger there would be a corresponding Account having the items on the opposite sides, in order to make a double entry of the two accounts, thus :—

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
an. 1	To Balance (total of Creditors as at this date) .	2,607	12	10	Jan. 31	By Cash . . .	543	10	6
					,,	,, Discount . .	18	14	7
					,,	,, Bills Payable .	396	15	4
31	,, Purchases . .	743	19	11	,,	,, Returns and Allowances .	41	16	8
					,,	,, Balance c/d .	2,350	15	8
		3,351	12	9			3,351	12	9
Feb. 1	To Balance b/d .	2,350	15	8					

The above balance would, of course, be equal to the sum of the separate Bought Ledger balances, and thus prove the Bought Ledger. Special items, such as transfers of contra accounts, cancelled bills, interest on renewed bills or on overdue accounts, etc., which have been posted direct from the Journal, and debited or credited to any of the personal accounts in the Bought Ledger, must also be debited or credited to these Adjustment Accounts.

Adjustment Account for the Sales Ledger.—Adjustment Accounts are constructed for the Sales Ledger, and also for each of its subdivisions if there are several Sales Ledgers. The following is an example :—

Dr. SALES LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance (total of Debtors as at this date)	7,416	12	7	Jan. 31	By Cash	3,716	2	6
31	„ Sales	3,027	14	8	„	„ Discount	167	4	11
„	„ Cash (dishonoured bills and charges)	54	6	11	„	„ Bills Receivable	316	10	9
					„	„ Returns and Allowances	74	16	3
					„	„ Bad Debts	124	2	10
					„	„ Balance c/d	6,099	16	11
		10,498	14	2			10,498	14	2
Feb. 1	To Balance b/d	6,099	16	11					

The above Account would appear in the General Ledger. In the Sales Ledger there would be a corresponding account, but having the items on the opposite sides in order to make a double entry of these two accounts, thus :—

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
Jan. 31	To Cash	3,716	2	6	Jan. 1	By Balance (total of Debtors as at this date)	7,416	2	7
„	„ Discount	167	4	11	31	„ Sales	3,027	14	8
„	„ Bills Receivable	316	10	9	„	„ Cash (dishonoured bill and charges	54	6	11
„	„ Returns and Allowances	74	16	3					
„	„ Bad Debts	124	2	10					
„	„ Balance c/d	6,099	16	11					
		10,498	14	2			10,498	14	2
					Feb. 1	By Balance b/d	6,099	16	11

The above balance would, of course, be equal to the sum of the separate Sales Ledger balances, thus checking or proving the Sales Ledger. Special items, such as transfers of contra accounts, interest on renewed bills or on overdue accounts, cancelled bills, etc., which have been posted direct from the Journal, or items such as Carriage paid out on empties or returns, etc., which have been posted from the Petty Cash Book, and have been debited or credited to any of the personal accounts in the Sales Ledger, must also be debited or credited to these Adjustment Accounts.

"Contra" Adjustment Accounts.—Self-balancing Ledgers are merely an extension or adaptation of the former system of "Total Checking Accounts." A "Total Debtors' Account" and a "Total Creditors' Account"—now dignified with the titles of Sales Ledger Adjustment Account and Bought Ledger Adjustment Account—were kept in the General Ledger and used by the chief clerk or accountant to check the Sales Ledger and Bought Ledger balances respectively. It was quite an afterthought, and a very

modern one, to copy this total account into the back of the Ledger concerned, and by transposing the debits and credits make the Ledger self-balancing. This method, of course, provides "contra" adjustment accounts and facilitates their construction by means of Journal entries, and is also a rigid adherence to the principle that every debit must have a corresponding credit, and *vice versâ*.

Many accountants, however (including the present editor), claim that the practice of raising these Contra Adjustment Accounts is wrong in principle, and that the only Adjustment Accounts necessary are those kept in the General Ledger, and that these Contra Adjustment Accounts (if kept at all) are Memorandum Accounts only, having nothing to do with the financial books as such, merely providing each Ledger clerk with a methodical statement of the proof of his Ledger. To carry out this scheme, the books are analysed and the totals are carried into the General Ledger to accounts called "A Ledger" Account, "B Ledger" Account, etc., as the case may be. Each of these accounts would assume a form similar to the Bought Ledger Adjustment Account, and Sales Ledger Adjustment Account shown on pages 185 and 186, and it would then remain for the clerk in charge of the A, B, or C Ledger to make the balance of it come to the balance as shown by the General Ledger. As a matter of convenience, the clerk might keep the above-mentioned Memorandum Account at the end of his ledger in order to obviate the possibility of his having been given wrong figures, and, therefore, of his searching for a mistake which did not exist. If, for instance, the total debits posted into the A Ledger were actually £17,896 and he erroneously put down £17,869, he would be searching for an error of £27 which did not exist, and the keeping of the Memorandum Account in his Ledger and agreeing the same with the General Ledger before commencing to take out his balance would obviate any such possibility as above mentioned.

Rulings of Subsidiary Books.—Where there are several Bought Ledgers and Sales Ledgers in use, extra columns will be required in the Purchases and Sales Books, Returns Books, Bill Books, Cash Book, etc., for the purpose of analysing the items contained therein under the respective ledgers to which they have been posted. These columns will, of course, be in addition to the departmental columns (if any). Where, however, the number of ledgers is very large, separate subsidiary books will be required for each ledger.

See examples on following pages.

A specimen of the special ruling required for the Journal is shown in the worked example. It is only necessary to analyse the Bought Ledger and Sales Ledger items. The transfers and other Journal items that have been posted in detail to these two Ledgers must also be posted in total to their respective Adjustment Accounts.

SALES BOOK

Date.	Particulars.	Led. Fol.	Total.	Ledgers.			Mantles.	Dress Materials.	Felts.
				A–K.	L–R.	S–Z.			

PURCHASES BOOK

Date.	Particulars.	Led. Fol.	Total.	Ledgers.			Departments.		
				Town.	Country.	Foreign.	No. 1.	No. 2.	No. 3.

CASH BOOK

Dr. RECEIPTS.

Date.	Particulars.	Fo'.	Discount.	Office.	Bank.	Sales Ledgers.		
						A–K.	L–R	S–Z.

PAYMENTS. *Cr.*

Date.	Particulars.	Fol.	Discount.	Office.	Bank.	Bought Ledgers.		
						A Dept. Town.	B Dept. Country.	C Dept. Foreign.

Note 1.—It is not necessary to analyse the General Ledger items as in the worked example. Where there are several Bought Ledgers and Sales Ledgers, the columns can be used to greater advantage as shown above.

Note 2.—The Bought Ledger column on the Receipts side and the Sales Ledger column on the Payments side, shown in the worked example, can also be dispensed with, as the items are not very numerous, and can be easily picked out when the monthly Adjustment Accounts are constructed.

Journal Entries for Bought Ledger Adjustment Accounts.—The Journal entries for constructing the Adjustment Accounts relative to the Bought Ledger (see worked example) would, if required, be as follows :—

JOURNAL.

19—			Dr.			Cr.		
July 31	General Ledger Adjustment A/c	B.L.	1,413	2	5			
	To Bought Ledger Adjustment	G.L.				1,413	2	5
	For opening balances as on 1st Jan., 19—							
31	General Ledger Adjustment A/c	B.L.	1,096	4	7			
	To Bought Ledger Adjustment Account	G.L.				1,096	4	7
	Total credit purchases for month as per Purchases Book.							
31	General Ledger Adjustment A/c	B.L.	354	8	3			
	To Bought Ledger Adjustment Account	G.L.				354	8	3
	Sundry credit transfers for month as per Journal.							
31	Bought Ledger Adjustment A/c	G.L.	8	14	6			
	To General Ledger Adjustment A/c	B.L.				8	14	6
	Returns for month as per the Purchases Returns Book.							
31	Bought Ledger Adjustment A/c	G.L.	691	—	7			
	To General Ledger Adjustment Account	B.L.				691	—	7
	Cash and Discount paid to Creditors for month as per Cash Book.							
31	Bought Ledger Adjustment A/c	G.L.	706	9	7			
	To General Ledger Adjustment A/c	B.L.				706	9	7
	Acceptances for month as per Bills Payable Book.							
31	Bought Ledger Adjustment A/c	G.L.	23	9	11			
	To General Ledger Adjustment Account	B.L.				23	9	11
	Discount allowed by Creditors as per Bills Payable Book.							
31	Bought Ledger Adjustment A/c	G.L.	205	—	—			
	To General Ledger Adjustment A/c	B.L.				205	—	—
	Sundry credit transfers for month as per Journal.							

Note.—The opening balances of the two Adjustment Accounts would not need to be journalised every month, as the balances would be brought down each month ready for subsequent months.

Journal Entries for Sales Ledger Adjustment Accounts.—The Journal entries for raising the Adjustment Accounts pertaining to the Sales Ledger (see worked example), would, if required, be as follows :—

JOURNAL.			Dr.			Cr.		
19—								
July 31	Sales Ledger Adjustment A/c .	G.L.	2,122	11	9			
	To General Ledger Adjustment Account	S.L.				2,122	11	9
	Opening balances as on 1st Jan.							
31	Sales Ledger Adjustment A/c .	G.L.	125	7	6			
	To General Ledger Adjustment Account	S.L.				125	7	6
	Dishonoured Bills as per Cash Book.							
31	Sales Ledger Adjustment A/c .	G.L.	391	14	7			
	To General Ledger Adjustment Account	S.L.				391	14	7
	Transfers for month as per Journal.							
31	Sales Ledger Adjustment A/c .	G.L.	1,121	7	3			
	To General Ledger Adjustment Account	S.L.				1,121	7	3
	Total credit sales for month as per Sales Book.							
31	Sales Ledger Adjustment A/c .	G.L.		10	–			
	To General Ledger Adjustment Account	S.L.					10	–
	Items charged to customers during month as per Petty Cash Book.							
31	General Ledger Adjustment A/c .	S.L.	1,556	10	6			
	To Sales Ledger Adjustment Account	G.L.				1,556	10	6
	Cash and Discount received from Debtors for month as per Cash Book.							
31	General Ledger Adjustment A/c .	S.L.	10	6	9			
	To Sales Ledger Adjustment A/c	G.L.				10	6	9
	Returns for month as per Sales Returns Book.							
31	General Ledger Adjustment A/c .	S.L.	510	13	4			
	To Sales Ledger Adjustment A/c	G.L.				510	13	4
	Bills received from Debtors as per Bills Receivable Book.							
31	General Ledger Adjustment A/c .	S.L.	20	4	4			
	To Sales Ledger Adjustment A/c	G.L.				20	4	4
	Discount allowed to Debtors as per Bills Receivable Book.							

Example.—From the following particulars write up the Journal, Tabular Purchases Book, Sales Book, Returns Books, Bank Cash Book, Tabular Petty Cash Book, and Bill Books. Post to proper Ledgers, make them self-balancing, and extract Trial balances :—

19—

		£	s.	d.
July 1.	R. Retrop commenced the month with the following assets and liabilities :—			
	Petty Cash in hand	£20	–	–
	Cash at National Bank, Ltd.	1,757	13	8
	Stock-in-trade	1,756	14	8
	Bills Receivable (Nos. 120-125)	856	10	6
	A. Archer, Ltd. *Dr.*	317	4	9
	B. Brown *Dr.*	426	8	7
	D. Dunlop & Co. *Dr.*	396	16	2
	Evans Bros. *Dr.*	675	6	3
	F. Finch & Son *Dr.*	87	1	8
	Garnet, Son & Co. *Dr.*	219	14	4
	H. Henry *Cr.*	430	12	10
	I. Isaacs, Ltd. *Cr.*	361	17	5
	J. Jones & Co. *Cr.*	212	13	9
	Korper Bros. *Cr.*	86	8	2
	L. Lewin & Sons *Cr.*	216	4	7
	Martin, Son & Potter *Cr.*	76	10	8
	Outstanding Rent *Cr.*	28	15	–
	Plant and Machinery	4,216	14	6
	Furniture and Fixtures	607	10	6
	Bills Payable (Nos. 48-50)	428	2	10
	His transactions for the month were :—			
2.	Bought Goods of H. Henry	217	6	5
3.	Bill Receivable No. 121 (accepted by F. Finch & Son) returned dishonoured	64	15	10
4.	Received Bill (No. 126) from A. Archer, Ltd., P. Green's Acceptance dated July 2nd at 1 month payable at Coutts', City	301	7	6
,,	Discount allowed	15	17	3
,,	Paid Fire and Employers' Liability Insurance	15	15	–
5.	Sold Goods to A. Archer, Ltd.	132	3	4
,,	Received Cash from F. Finch & Son	65	1	4
,,	Paid Wages	31	4	6
,,	Bought National Health Insurance Stamps	10	–	–
,,	Ready Money Sales	16	16	5
7.	Received Cash for Bill Receivable No. 123	157	4	8
9.	Purchased Goods of I. Isaacs, Ltd.	84	15	2
,,	Received Cash from B. Brown for amount of account less 5 %. Wrote him that we could only allow 2½ %, and would carry the balance forward			
10.	Bought Furniture of Ridler & Co.	100	–	–
11.	Accepted I. Isaac's Draft at 1 m/d (No. 51) dated 10th July	343	15	7
,,	Discount allowed	18	1	10
,,	Paid Life Assurance Premium	10	–	–
12.	Sold Goods to B. Brown £424 3s. 11d. less trade discount of 25 %.			
,,	Paid Wages	34	7	9

19—		£	s.	d.
July 12.	Sent Bill No. 120 to Bank for collection	125	–	–
,,	G. Goodman's Acceptance (No. 124) £125, renewed for 3 months with Interest at 5 %. New Bill No. 127 payable at Bank of England, Gloucester.			
,,	Ready Money Sales	15	15	11
14.	Purchased Goods of L. Lewin & Sons	72	8	3
,,	Bill Receivable No. 120 (accepted by D. Dunlop & Co.) returned by Bank dishonoured	125	–	–
,,	Noting Charges paid by Bank		7	6
15.	D. Dunlop & Co. return damaged Goods	10	16	9
16.	Received Cash from D. Dunlop & Co. on account	200	–	–
,,	Bought Coal of Midland Colliery Co.	25	–	–
,,	Paid Carriage on same	5	10	–
17.	Sold Goods to D. Dunlop & Co.	97	4	2
,,	Paid Ridler & Co. amount of Account less 5 %			
18.	Renewed my Acceptance to M. Masters (No. 48) £150 for 3 months with Interest at 5 %. New Bill No. 52			
19.	Bought Goods of J. Jones & Co.	224	10	11
,,	Paid Wages	29	14	8
,,	Received Cash from Evans Bros. for amount of Account as at 1st July, less 5 %			
,,	Ready Money Sales	10	12	6
21.	Bought of Stationery Supplies Co., Stationery	27	13	6
,,	Paid Korper Bros.	82	1	9
,,	Discount deducted 5 %	4	6	5
22.	Returned to J. Jones & Co. Goods not up to sample	8	14	6
,,	F. Finch & Sons accepted our draft at 2 months, Bill No. 128, dated July 20th payable at Lloyd's, Chatham	82	14	7
,,	Discount allowed	4	7	1
,,	Sold Goods to Evans Bros.	206	13	9
,,	Drew for Self	50	–	–
23.	Purchased Goods of Korper Bros.	86	3	6
,,	Sent Garnet, Son & Co.'s Acceptance (No. 122) to H. Henry on account	200	–	–
,,	Bill Payable No. 49 paid by Bank	216	15	6
,,	Paid J. Jones & Co.	203	19	3
,,	Korper Bros. write and say they can allow only 2½ % Discount, and will carry balance forward.			
24.	Ready Money Purchases	21	4	10
25.	Discounted Bill Receivable No. 125	184	10	–
,,	Bankers' Charge for discounting	1	10	–
,,	Sold Goods to F. Finch & Son	287	17	5
,,	Accepted L. Lewin & Son's draft at 2 m/d (Bill No. 53) in favour of N. Nash, dated 24th	210	16	6
,,	Discount allowed	5	8	1
26.	Paid Martin, Son & Potter their Account as at 1st July, less 2½ % discount.			
,,	Paid Wages	32	15	11
,,	Sold old Plant (value in books £85) for Cash	70	–	–
,,	Till Takings	10	4	9
28.	Paid Rent to June last	28	15	–
,,	Received Demand Note for Rates	17	14	6
,,	Bill Receivable No. 122 (accepted by Garnet, Son & Co.) returned by H. Henry dishonoured.			
,,	Noting Charges paid by him		7	6

19—		£	s.	d.
July 29.	Bought goods of Martin, Son & Potter, less trade discount of 10 % . . . . . *net*	240	12	4
30.	Received Cash from Garnet Son & Co. . . .	200	7	6
,,	Paid H. Henry	200	7	6
31.	Sold Goods to Garnet, Son & Co.	79	5	8
,,	Paid for Stationery	13	14	6
,,	Paid Salaries for month	41	13	9
,,	Till Takings	4	6	2

The Petty Cash is kept on the Imprest System, and the following were the transactions for the month :—

		£	s.	d.
July 1.	Bought Stamps	1	–	–
2.	Paid Carter, Paterson & Co. Charges on goods sold . .		3	6
3.	Paid Midland Railway Co. Carriage on goods bought .	1	17	11
,,	Paid Noting Charges on dishonoured Bill, chargeable to F. Finch & Son		5	6
4.	Paid for Telegrams		2	6
5.	Paid for Cleaning Offices		6	–
7.	Bus and Tram fares of boy.		1	3
8.	Printing Address Labels		10	6
9.	Paid S.E. & C. Railway Carriage on goods bought . .	1	15	10
10.	Paid Carter, Paterson Charges on goods sold . . .		2	4
11.	Paid London Parcels Delivery Co. Charges on goods sold		2	8
12.	Paid for Cleaning Offices		6	–
14.	Bought Envelopes		5	6
15.	Paid Travellers' Expenses as per card		16	6
16.	Paid L. & S.W. Railway, Carriage on goods purchased .	1	2	6
17.	Paid for Telegrams		1	2
18.	Bought Candles and Matches			6
19.	Paid for Cleaning Offices		6	–
21.	Bus and Tram Fares of boy		1	–
22.	Paid Parcels Delivery Co., Charges on goods sold . .		3	4
23.	Paid G.W. Railway, Charges on goods bought . .	1	18	6
24.	Bought Tape and Sealing-wax		1	2
25.	Paid for Washing Towels and Dusters		3	6
26.	Paid for Cleaning Offices		6	–
28.	Paid Pickford & Co., Charges on goods sold . . .		3	8
29.	Paid for Telegrams			10
,,	Bought Stamps	1	–	–
30.	Paid Carriage on returned empties, chargeable to Evans Bros.		4	6
31.	Paid Travellers' Expenses		10	8

PRIVATE JOURNAL.

					Dr.			Cr.		
19— July 1	Petty Cash				20	–	–			
	Bank				1,757	13	8			
	Stock..				1,756	14	8			
	Bills Receivable				856	10	6			
	Sales Ledger Adjustment Account ..				2,122	11	9			
	A. Archer, Ltd. ..	317	4	9						
	B. Brown	426	8	7						
	D. Dunlop & Co. ..	396	16	2						
	Evans Bros.	675	6	3						
	F. Finch & Son ..	87	1	8						
	Garnet, Son & Co. ..	219	14	4						
	Plant and Machinery				4,216	14	6			
	Furniture and Fixtures				607	10	6			
	To Bought Ledger Adjustment Account							1,413	2	5
	H. Henry	430	12	10						
	I. Isaacs, Ltd.	361	17	5						
	J. Jones & Co. ..	212	13	9						
	Korper Bros.	86	8	2						
	L. Lewin & Sons ..	216	4	7						
	Martin, Son & Potter	76	10	8						
	Outstanding Accounts	28	15	–						
	„ Bills Payable							428	2	10
	„ Capital							9,496	10	4
					11,337	15	7	11,337	15	7
	For Sundry Assets and Liabilities as at this date.									

JOURNAL

Date.	Particulars.	Dr.			Cr.			Bought Ledger. Dr.			Bought Ledger. Cr.			Sales Ledger. Dr.			Sales Ledger. Cr.		
July 3	F. Finch & Son	64	15	10										64	15	10			
	To Bill Receivable				64	15	10												
	Dishonoured Bill No. 121 cancelled.																		
12	G. Goodman	125	–	–										125	–	–			
	To Bill Receivable				125	–	–												
	Bill No. 124 cancelled.																		
12	G. Goodman	1	11	3										1	11	3			
	To Interest				1	11	3												
	Interest on £125 for 3 mos. at 5%.																		
17	Ridler & Co.	5	–	–				5	–	–									
	To Furniture				5	–	–												
	Discount allowed 5%.																		
18	Bill Payable	150	–	–															
	To M. Masters				150	–	–				150	–	–						
	Bill No. 48 cancelled.																		
18	Interest	1	17	6															
	To M. Masters				1	17	6				1	17	6						
	Interest on £150 for 3 mos. at 5%.																		
23	H. Henry	200	–	–				200	–	–									
	To Bill Receivable				200	–	–												
	Bill No. 122 indorsed over to him.																		
23	Discounts Received	2	3	3															
	To Korper Bros.				2	3	3				2	3	3						
	Discount deducted in error.																		

JOURNAL (CONTINUED)

Date.	Particulars.	Dr.			Cr.			Bought Ledger. Dr.			Bought Ledger. Cr.			Sales Ledger. Dr.			Sales Ledger. Cr.		
July 26	Loss on Sale of Plant . . .	15	–	–															
	To Plant and Machinery . .				15	–	–												
	Loss on Sale transferred.																		
28	Garnet, Son & Co.. . . .	200	7	6										200	7	6			
	To H. Henry				200	7	6				200	7	6						
	H. Henry's acceptance Bill No. 122 dishonoured, noting charges 7s. 6d.																		
								205	–	–	354	8	3	391	14	7			

BILLS RECEIVABLE BOOK

Date.	No. of Bill.	From Whom Received.	Led. Fol.	Discount.			Amount of Bill.			Date of Bill.	Term.	Due Date.
19—												
July 4	126	A. Archer, Ltd. . . .		15	17	3	301	7	6	July 2	1 m/d	Aug. 5
12	127	G. Goodman . .		4	7	1	126	11	3	July 11	3 m/d	Oct. 14
22	128	F. Finch & Son . . .					82	14	7	July 20	2 m/d	Sept. 23
				20	4	4	510	13	4			

BILLS PAYABLE BOOK

Date.	No. of Bill.	To Whom Given.	Led. Fol.	Discount.			Amount of Bill.			Date of Bill.	Term.	Due Date.
19—												
July 11	51	I. Isaacs, Ltd. . . .		18	1	10	343	15	7	July 10	1 m/d	Aug. 13
18	52	M. Masters					151	17	6	July 17	3 m/d	Oct. 20
25	53	L. Lewin & Sons . . .		5	8	1	210	16	6	July 24	2 m/d	Sept. 27
				23	9	11	706	9	7			

PURCHASES BOOK

Date.	Particulars.	Details.	Totals.	Purchases.	Rent, Rates, etc.	Coal.	Furniture and Fixtures.	Stationery.
19—								
July 2	H. Henry— Goods		217 6 5	217 6 5				
9	I. Isaacs, Ltd.— Goods		84 15 2	84 15 2				
10	Ridler & Co.— Furniture		100 – –				100 – –	
14	J. Lewin & Sons — Goods		72 8 3	72 8 3				
16	Midland Colliery Co.— Coal		25 – –			25 – –		
19	J. Jones & Co.— Goods		224 10 11	224 10 11				
21	Stationery Supplies Co. Stationery		27 13 6					27 13 6
23	Korper Bros. — Goods		86 3 6	86 3 6				
28	Outstanding A/cs— Rates		17 14 6		17 14 6			
29	Martin, Son & Potter— Goods	267 7 –						
	Less Trade Discount 10%	26 14 8	240 12 4	240 12 4				
			1,096 4 7	925 16 7	17 14 6	25 – –	100 – –	27 13 6

PURCHASES RETURNS BOOK

19—							
July 22	J. Jones & Co.—						
	Goods not up to sample				8	14	6
					8	14	6

SALES BOOK

19—							
July 5	A. Archer, Ltd.—						
	Goods				132	3	4
12	B. Brown—						
	Goods	424	3	11			
	Less Trade Discount, 25%	106	1	–			
					318	2	11
17	D. Dunlop & Co.—						
	Goods				97	4	2
22	Evans Bros.						
	Goods				206	13	9
25	F. Finch & Son —						
	Goods				287	17	5
31	Garnet, Son & Co. —						
	Goods				79	5	8
					1,121	7	3

SALES RETURNS BOOK

19—							
July 15	D. Dunlop & Co.—						
	Goods damaged				10	16	9
					10	16	9

BANK CASH BOOK

Dr. RECEIPTS.

Date.	Particulars.	Discount.	Details.	Bank.	Bought Ledger.	Sales Ledger.	General Ledger.
19—							
July 1	To Balance			1,757 13 8			1,757 13 8
5	„ F. Finch & Son		65 1 4			65 1 4	
„	„ R.M. Sales		16 16 5	81 17 9			16 16 5
7	„ Bill Receivable No. 123		157 4 8	157 4 8			157 4 8
9	„ B. Brown.	10 13 3	405 2 2	405 2 2		415 15 5	
12	„ Bill Receivable No. 120		125 – –				125 – –
„	„ R.M. Sales		15 15 11	140 15 11			15 15 11
16	„ D. Dunlop & Co.		200 – –	200 – –		200 – –	
19	„ Evans Bros.	33 15 4	641 10 11			675 6 3	
„	„ R.M. Sales		10 12 6	652 3 5			10 12 6
25	„ Bill Receivable No. 125		184 10 –	184 10 –			184 10 –
26	„ Plant		70 – –				70 – –
„	„ R.M. Sales		10 4 9	80 4 9			10 4 9
30	„ Garnet, Son & Co.		200 7 6	200 7 6		200 7 6	
31	„ R.M. Sales		4 6 2	4 6 2			4 6 2
		44 8 7		3,864 6 –		1,556 10 6	2,352 4 1
Aug. 1	To Balance b/d			2,525 16 10			2,525 16 10

BANK CASH BOOK

PAYMENTS.

Cr.

Date.	Particulars.	Discount.	Cash.	Bank.	Bought Ledger.	Sales Ledger.	General Ledger.
19—							
July 4	By Insurance			15 15 –			15 15 –
5	,, Wages			31 4 6			31 4 6
,,	,, Insurance Stamps			10 – –			10 – –
11	,, Drawing A/c			10 – –			10 – –
12	,, Wages			34 7 9			34 7 9
14	,, D. Dunlop (Bill)			125 7 6		125 7 6	
16	,, Coal (Carriage)			5 10 –			5 10 –
17	,, Ridler & Co.			95 – –	95 – –		
19	,, Wages			29 14 8			29 14 8
21	,, Korper Bros.	4 6 5		82 1 9	86 8 2		
22	,, Drawing A/c			50 – –			50 – –
23	,, Bill Payable No. 49			216 15 6			216 15 6
,,	,, J. Jones & Co.			203 19 3	203 19 3		
24	,, R.M. Purchases			21 4 10			21 4 10
25	,, Banker's Discount			1 10 –			1 10 –
26	,, Martin, Son & Potter	1 18 3		74 12 5	76 10 8		
,,	,, Wages			32 15 11			32 15 11
28	,, Outstanding Rent			28 15 –	28 15 –		
30	,, H. Henry			200 7 6	200 7 6		
31	,, Stationery			13 14 6			13 14 6
,,	,, Salaries			41 13 9			41 13 9
,,	,, Petty Cash			13 19 4			13 19 4
,,	,, Balance c/d			2,525 16 10			2,525 16 10
		6 4 8		3,864 6 –	691 – 7	125 7 6	3,054 2 7

Cash Received.	Date.	Particulars.	Total.	Sundry Expenses.	Postage & Telegrams.	Carriage Inwards.	Printing & Stationery.	Travelling Expenses.	Carriage Outwards.	Folio.	Ledger Accounts.
	19—										
20 – –	July 1	Balance b/f									
	"	Stamps	1 – –		1 – –						
	2	Carter, Paterson & Co.	3 6						3 6		
	3	Midland Railway Co.	1 17 11			1 17 11					
	"	Noting Charges on Bill (F. Finch & Son)	5 6								5 6
	4	Telegrams	2 6		2 6						
	5	Cleaning Offices	6 –	6 –							
	7	Bus and Tram Fares	1 3	1 3							
	8	Address Labels	10 6				10 6				
	9	S.E. & Chatham Railway	1 15 10			1 15 10					
	10	Carter, Paterson & Co.	2 4						2 4		
	11	London Parcels Dely. Co.	2 8						2 8		
	12	Cleaning Offices	6 –	6 –							
	14	Envelopes	5 6				5 6				
	15	Traveller's Expenses	16 6					16 6			
	16	L. & S.W. Railway	1 2 6			1 2 6					
	17	Telegrams	1 2		1 2						
	18	Candles and Matches	6	6							
	19	Cleaning Offices	6	6 –							
	21	Bus and Tram Fares	1 –	1 –							
	22	Parcels Delivery Co.	3 4						3 4		
	23	Great Western Railway	1 18 6			1 18 6					
	24	Tape and Sealing-wax	1 2				1 2				
	25	Washing Towels and Dusters	3 6	3 6							
	26	Cleaning Offices	6 –	6 –							
	28	Pickford & Co.	3 8						1 8		
	29	Telegrams	10		10						
	"	Stamps	1 – –		1 – –						
	30	Carriage on returned empties (Evans Bros.)	4 6								4 6
	31	Traveller's Expenses	10 8					10 8			
			13 19 4	1 10 3	2 4 6	6 14 9	17 2	1 7 2	15 6		10 –
				G. L.	G. L.	G. L.	G. L.	G. L.	G. L.		
13 19 4	"	Cheque C B									
	"	Balance c/d	20 – –								
33 19 4			33 19 4								
20 – –	Aug. 1	Balance b/d									

BOUGHT OR CREDITORS' LEDGER

Dr. H. HENRY. *Cr.*

19—					19—				
July 23	To Bill Receivable	200	–	–	July 1	By Balance . .	430	12	10
30	„ Cash . .	200	7	6	2	„ Goods . .	217	6	5
					28	„ Garnet, Son & Co. . .	200	7	6

Dr. KORPER BROS. *Cr.*

19—					19—				
July 21	To Cash . .	82	1	9	July 1	By Balance . .	86	8	2
„	„ Discount . .	4	6	5					
		86	8	2			86	8	2
					July 23	By Discount . .	2	3	3
					„	„ Goods . .	86	3	6

Dr. I. ISAACS, LTD. *Cr.*

19—					19—				
July 11	To Bill Payable .	343	15	7	July 1	By Balance . .	361	17	5
„	„ Discount . .	18	1	10	9	„ Goods . .	84	15	2

Dr. J. JONES & CO. *Cr.*

19—					19—				
July 22	To Returns . .	8	14	6	July 1	By Balance . .	212	13	9
23	„ Cash . .	203	19	3	19	„ Goods . .	224	10	11

Dr. L. LEWIN & SONS. *Cr.*

19—					19—				
July 25	To Bill Payable .	210	16	6	July 1	By Balance . .	216	4	7
„	„ Discount . .	5	8	1	14	„ Goods . .	72	8	3

Dr. MARTIN, SON & POTTER. *Cr.*

19—					19—				
July 26	To Cash . .	74	12	5	July 1	By Balance . .	76	10	8
„	„ Discount . .	1	18	3					
		76	10	8			76	10	8
					July 29	By Goods . .	240	12	4

Dr. M. MASTERS. *Cr.*

19—					19—				
July 18	To Bill Payable .	151	17	6	July 18	By Bill Payable .	150	–	–
					„	„ Interest . .	1	17	6
		151	17	6			151	17	6

Dr. MIDLAND COLLIERY CO. *Cr.*

					19—				
					July 16	By Coal . .	25	–	–

Dr. STATIONERY SUPPLIES CO. *Cr.*

					19— July 21	By Stationery .	27	13	6

Dr. RIDLER & CO. *Cr.*

19— July 17	To Cash . .	95	–	–	19— July 10	By Furniture .	100	–	–
,,	,, Furniture .	5	–	–					
		100	–	–			100	–	–

Dr. OUTSTANDING ACCOUNTS. *Cr.*

19— July 28	To Cash . .	28	15	–	19— July 1	By Balance . .	28	15	–
					28	By Rates, etc. .	17	14	6

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19— July 1	To Balance . .	1,413	2	5	19— July 31	By Returns . .	8	14	6
31	,, Goods . .	1,096	4	7	,,	,, Cash & Discount	691	–	7
,,	,, Transfers as per Journal .	354	8	3	,,	,, Bills Payable	706	9	7
					,,	,, Discount . .	23	9	11
					,,	,, Transfers as per Journal .	205	–	–
					,,	,, Balance c/d .	1,229	–	8
		2,863	15	3			2,863	15	3
Aug. 1	To Balance b/d .	1,229	–	8					

SALES OR DEBTORS' LEDGER

Dr. A. ARCHER, LTD. *Cr.*

19— July 1	To Balance . .	317	4	9	19— July 4	By Bill Receivable	301	7	6
					,,	,, Discount . .	15	17	3
		317	4	9			317	4	9
July 5	To Goods . .	132	3	4					

Dr. B. BROWN. *Cr.*

19— July 1	To Balance . .	426	8	7	19— July 9	By Cash . .	405	2	2
					,,	,, Discount . .	10	13	3
					,,	,, Balance c/d .	10	13	2
		426	8	7			426	8	7
July 9	To Balance b/d .	10	13	2					
12	,, Goods . .	318	2	11					

Dr. D. DUNLOP & CO. *Cr.*

19— July 1	To Balance . .	396	16	2	19— July 15	By Returns . .	10	16	9
14	,, Cash (dishonoured bill) .	125	7	6	16	,, Cash . .	200	–	–
17	,, Goods . .	97	4	2					

Dr. EVANS BROS. *Cr.*

19—					19—				
July 1	To Balance . .	675	6	3	July 19	By Cash . .	641	10	11
					,,	,, Discount . .	33	15	4
		675	6	3			675	6	3
July 22	To Goods . .	206	13	9					
30	,, Petty Cash .		4	6					

Dr. F. FINCH & SON. *Cr.*

19—					19—				
July 1	To Balance . .	87	1	8	July 5	By Cash . .	65	1	4
3	,, Bill Rec. (dishonoured) .	64	15	10	22	,, Bill Receivable	82	14	7
					,,	,, Discount . .	4	7	1
5	,, Petty Cash .		5	6					
		152	3	–			152	3	–
July 23	To Goods . .	287	17	5					

Dr. GARNET, SON & CO. *Cr.*

19—					19—				
July 1	To Balance . .	219	14	4	July 30	By Cash . .	200	7	6
28	,, H. Henry .	200	7	6					
31	,, Goods . .	79	5	8					

Dr. G. GOODMAN. *Cr.*

19—					19—				
July 12	To Bill Receivable	125	–	–	July 14	By Bill Receivable	126	11	3
,,	,, Interest . .	1	11	3					
		126	11	3			126	11	3

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
July 31	To Cash and Discount . .	1,556	10	6	July 1	By Balance .	2,122	11	9
					31	,, Cash (dishonoured bill) .	125	7	6
,,	,, Returns . .	10	16	9					
,,	,, Bills Receivable	510	13	4	,,	,, Transfer as per Journal .	391	14	7
,,	,, Discount . .	20	4	4					
,,	,, Balance c/d .	1,663	6	2	,,	,, Goods . .	1,121	7	3
					,,	,, Petty Cash .		10	–
		3,761	11	1			3,761	11	1
					Aug. 1	By Balance b/d .	1,663	6	2

IMPERSONAL OR GENERAL LEDGER

Dr. STOCK. *Cr.*

19—									
July 1	To Balance . .	1,756	14	8					

Dr. PLANT AND MACHINERY. *Cr.*

19—					19—				
July 1	To Balance . .	4,216	14	6	July 26	By Cash . .	70	–	–
					,,	,, Loss on Sale .	15	–	–

Dr. FURNITURE AND FIXTURES. *Cr.*

19—					19—				
July 1	To Balance . .	607	10	6	July 17	By Ridler & Co. .	5	–	–
31	,, Sundry Crs. .	100	–	–					

Dr. BILLS PAYABLE. *Cr.*

19—					19—				
July 18	To M. Masters .	150	–	–	July 1	By Balance . .	428	2	10
23	,, Cash . .	216	15	6	31	,, Sundry Crs. .	706	9	7

Dr. BILLS RECEIVABLE. *Cr.*

19—					19—				
July 1	To Balance . .	856	10	6	July 3	By Finch & Son .	64	15	10
					7	,, Cash . .	157	4	8
					12	,, Cash . .	125	–	–
					,,	,, G. Goodman .	125	–	–
					23	,, H. Henry .	200	–	–
					25	,, Cash . .	184	10	–
		856	10	6			856	10	6
July 31	To Sundry Drs. .	510	13	4					

Dr. PURCHASES. *Cr.*

19—									
July 24	To Cash . .	21	4	10					
31	,, Sundry Crs. .	925	16	7					

Dr. PURCHASES RETURNS AND ALLOWANCES. *Cr.*

					19—				
					July 31	By Sundry Crs. .	8	14	6

Dr. SALARIES. *Cr.*

19—									
July 31	To Cash . .	41	13	9					

Dr. SALES. *Cr.*

					19—				
					July 5	By Cash . .	16	16	5
					12	,, ,, . .	15	15	11
					19	,, ,, . .	10	12	6
					26	,, ,, . .	10	4	9
					31	,, ,, . .	4	6	2
					,,	,, Sundry Drs. .	1,121	7	3

Dr. SALES RETURNS AND ALLOWANCES. *Cr.*

19—										
July 31	To Sundry Drs.	10	16	9						

Dr. WAGES. *Cr.*

19—										
July 5	To Cash	31	4	6						
12	„ „	34	7	9						
19	„ „	29	14	8						
26	„ „	32	15	11						

Dr. HEALTH INSURANCE STAMPS. *Cr.*

19—										
July 5	To Cash	10	–	–						

Dr. INSURANCE. *Cr.*

19—										
July 4	To Cash	15	15	–						

Dr. RENT, RATES, AND TAXES. *Cr.*

19—										
July 31	To Sundry Crs.	17	14	6						

Dr. PRINTING AND STATIONERY. *Cr*

19—										
July 31	To Cash	13	14	6						
„	„ Sundry Crs.	27	13	6						
„	„ Petty Cash		17	2						

Dr. COAL. *Cr.*

19—										
July 16	To Cash (Carriage)	5	10	–						
31	„ Sundry Crs.	25	–	–						

Dr. LOSS ON SALE OF PLANT. *Cr.*

19—										
July 26	To Plant and Machinery	15	–	–						

Dr. DISCOUNTS ALLOWED. *Cr.*

19—										
July 31	To Sundry Drs.	44	8	7						
„	„ do.	20	4	4						

Dr. DISCOUNTS RECEIVED. *Cr.*

19—					19—				
July 23	To Korper Bros.	2	3	3	July 31	By Sundry Crs.	6	4	8
					„	„ do.	23	9	11

Dr. BANKER'S DISCOUNT. *Cr.*

19—										
July 25	To Cash	1	10	–						

Dr. INTEREST RECEIVABLE. *Cr.*

					19— July 12	By G. Goodman .	1	11	3

Dr. INTEREST PAYABLE. *Cr.*

19— July 18	To M. Masters .	1	17	6					

Dr. POSTAGE AND TELEGRAMS. *Cr.*

19— July 31	To Petty Cash .	2	4	6					

Dr. CARRIAGE INWARDS. *Cr.*

19— July 31	To Petty Cash .	6	14	9					

Dr. TRAVELLING EXPENSES. *Cr.*

19— July 31	To Petty Cash .	1	7	2					

Dr. CARRIAGE OUTWARDS. *Cr.*

19— July 31	To Petty Cash .		15	6					

Dr. SUNDRY EXPENSES. *Cr.*

19— July 31	To Petty Cash .	1	10	3					

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19— July 31	To Returns .	8	14	6	19— July 1	By Balance .	1,413	2	5
"	" Cash & Discount	691	–	7	31	" Goods .	1,096	4	7
"	" Bills Payable .	706	9	7	"	" Transfers as per Journal .	354	8	3
"	" Discount .	23	9	11					
"	" Transfers as per Journal .	205	–	–					
"	" Balance c/d .	1,229	–	8					
		2,863	15	3			2,863	15	3
					Aug. 1	By Balance b/d .	1,229	–	8

Dr. SALES LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19— July 1	To Balance .	2,122	11	9	19— July 31	By Cash and Discount .	1,556	10	6
31	" Cash (dishonoured bill) .	125	7	6	"	" Returns .	10	16	9
"	" Transfers as per Journal .	301	14	7	"	" Bills Receivable	510	13	4
"	" Goods .	1,121	7	3	"	" Discount .	20	4	4
"	" Petty Cash .		10	–	"	" Balance c/d .	1,663	6	2
		3,761	11	1			3,761	11	1
Aug. 1	To Balance b/d .	1,663	6	2					

PRIVATE LEDGER

Dr. CAPITAL ACCOUNT. *Cr.*

					19— July 1	By Balance . .	9,496	10	4

Dr. DRAWING ACCOUNT. *Cr.*

19— July 11	To Cash . .	10	–	–					
22	" " . .	50	–	–					

TRIAL BALANCE

BOUGHT LEDGER

31st July, 19—

	Dr.			*Cr.*		
I. Isaacs, Ltd.				84	15	2
H. Henry				447	19	3
J. Jones & Co. . . .				224	10	11
Korper Bros.				88	6	9
L. Lewin & Sons . . .				72	8	3
Martin, Son & Potter . .				240	12	4
Midland Colliery Co. . . .				25	–	–
Stationery Supplies Co. . .				27	13	6
Outstanding A/cs . . .				17	14	6
General Ledger Adjustment A/c	1,229	–	8			
	1,229	–	8	1,229	–	8

TRIAL BALANCE

SALES LEDGER.—31st July, 19—

	Dr.			*Cr.*		
A. Archer, Ltd. . . .	132	3	4			
B. Brown	328	16	1			
D. Dunlop & Co. . . .	408	11	1			
Evans Bros.	206	18	3			
F. Finch & Son . . .	287	17	5			
Garnet, Son & Co. . . .	299	–	–			
General Ledger Adjustment A/c				1,663	6	2
	1,663	6	2	1,663	6	2

TRIAL BALANCE

GENERAL LEDGER.—31st July, 19—

		Dr.			Cr.		
	Stock	1,756	14	8			
	Plant and Machinery	4,131	14	6			
	Furniture and Fixtures	702	10	6			
	Bills Payable				767	16	11
	Bills Receivable	510	13	4			
	Purchases	947	1	5			
	Purchases Returns, and Allowances				8	14	6
	Salaries	41	13	9			
	Sales				1,179	3	–
	Sales Returns, and Allowances	10	16	9			
	Wages	128	2	10			
	Health Insurance Stamps	10	–	–			
	Insurance	15	15	–			
	Rent, Rates, and Taxes	17	14	6			
	Printing and Stationery	42	5	2			
	Coal	30	10	–			
	Loss on Sale of Plant	15	–	–			
	Discounts Allowed	64	12	11			
	Discounts Received				27	11	4
	Banker's Discount	1	10	–			
	Interest Receivable				1	11	3
	Interest Payable	1	17	6			
	Postage and Telegrams	2	4	6			
	Carriage Inwards	6	14	9			
	Travelling Expenses	1	7	2			
	Carriage Outwards		15	6			
	Sundry Expenses	1	10	3			
	Bought Ledger Adjustment Account[1]				1,229	–	8
	Sales Ledger Adjustment Account[2]	1,663	6	2			
P.L.	Capital A/c				9,496	10	4
	Drawing A/c	60	–	–			
C.B.	Cash at Bank	2,525	16	10			
P.C.B.	Petty Cash in hand	20	–	–			
		12,710	8	–	12,710	8	–

Procedure where there are Several Bought and Sold Ledgers.—In large concerns where there are several Bought and Sold Ledgers in use, the system of having separate columns for each Ledger in each of the subsidiary books cannot conveniently be adopted, as the numerous rulings required would render the books too cumbersome. The subsidiary books, however, are ruled with departmental

[1] On the Balance Sheet this item will be called Sundry Creditors.
[2] On the Balance Sheet this item will show as Sundry Debtors.

columns where such are necessary. Separate analysis sheets or books are therefore provided, in which the L s. d. amounts on each page of the subsidiary books, and also the Cash Book, are dissected and placed in their proper columns. To facilitate such dissection the various Ledgers are provided with a special distinguishing mark or letter, which is inserted in the folio column of the subsidiary book when the item is posted into its particular Ledger. Thus, items in Ledger No. 1 would, when posted, have the figure 1 prefixed to the folio; items in Ledger No. 2 would, when posted, have the figure 2 prefixed to the folio, and so on. The analytical columns are totalled both horizontally and vertically, in order by means of cross casts to serve as a check on the analysis itself. The vertical total, at the finish, must also agree with the periodical total of the book so analysed. The totals of the various sheets are then copied into a Summary Book, and the Adjustment Accounts duly made. Separate Adjustment Accounts can, if desired, be prepared for each Ledger, or the whole lot may be constructed in tabular form. The combined total of the balances of the Adjustment Accounts provides the total amount of Debtors and Creditors for the Balance Sheet. The subjoined *pro forma* rulings and figures should be carefully followed by the student, as they illustrate fully and clearly the procedure outlined above.

ANALYSIS OF DAY OR SALES BOOK

Sales Ledgers.																Total.
1			2			3			4			5			6			7			8				
16	15	3	26	1	7	16	1	7	27	19	8	29 etc. etc. etc.	14	8	78	9	7	54	3	5	32	14	11	98 183	18 2	4 4
317	4	5	326	9	2	234	10	6	198	3	7	84	11	1	356	13	9	208	2	10	276	12	2	2,002	7	6

ANALYSIS OF SALES RETURNS BOOK

Sales Ledgers.																Total.
1			2			3			4			5			6			7			8				
5	1	6	11	2	7	4	8	8	3	4	9	2 etc. etc. etc.	6	10	13	1	7	4	1	11	12	2	6	34 20	14 16	3 1
20	10	8	14	3	9	15	1	6	10	2	5	12	1	9	24	2	8	17	5	7	15	6	10	128	15	2

ANALYSIS OF BILLS RECEIVABLE BOOK.

Sales Ledgers.								Total.
1	2	3	4	5	6	7	8	
65 11 4	62 19 8	83 1 9	75 4 3	56 2 4	29 2 6	35 15 8	39 14 11	244 10 4
				etc				203 2 1
				etc.				
				etc.				
94 16 8	112 4 7	116 10 9	124 3 8	107 4 2	58 10 5	76 14 11	105 3 8	795 8 10

ANALYSIS OF TRANSFERS (DEBITS).

Sales Ledgers.								Total.
1	2	3	4	5	6	7	8	
	17 1 6	10 1 6		14 3 8	15 4 9		19 2 11	50 8 1
				etc.				25 6 3
				etc.				
				etc.				
10 1 6	24 9 8	15 11 2	20 1 7	52 3 7	15 4 9	26 4 7	28 4 3	192 1 1

ANALYSIS OF TRANSFERS (CREDITS).

Sales Ledgers.								Total.
1	2	3	4	5	6	7	8	
4 5 6	5 11 8		11 2 9		10 2 7	17 4 7	6 1 3	32 12 10
				etc.				21 15 6
				etc.				
				etc.				
19 2 11	18 1 6	4 7 7	21 4 8	5 6 11	25 13 9	21 9 10	17 4 8	132 11 10

ANALYSIS OF BOUGHT OR PURCHASES BOOK.

Bought Ledgers.								Total.
1	2	3	4	5	6	7	8	
76 4 8	110 4 2	59 10 11	56 7 2	112 2 7	28 13 5	76 1 9	36 11 9	284 9 11
				etc.				271 6 6
				etc.				
				etc.				
108 3 11	285 4 2	287 6 3	202 9 10	291 18 5	219 10 6	259 4 5	287 6 10	2,031 4 4

ANALYSIS OF PURCHASES RETURNS BOOK

Bought Ledgers.																Total.		
1			2			3			4			5			6			7			8					
4	3	7	7	5	4	2	18	6	5	8	9	10	1	2	5	3	7	6	2	3	3	15	4	25	15	9
												etc.												19	2	9
												etc.														
												etc.														
27	1	6	12	3	9	15	1	7	24	3	9	37	13	6	29	1	11	19	6	8	25	11	7	190	4	3

ANALYSIS OF BILLS PAYABLE BOOK

Bought Ledgers.																Total.		
1			2			3			4			5			6			7			8					
27	13	2	19	14	6	27	10	8	25	10	7	34	3	5	16	4	11	29	18	6	25	9	8	94	18	4
												etc.												111	7	1
												etc.														
												etc.														
87	3	9	65	12	2	76	4	3	89	9	5	101	4	2	96	2	8	105	4	10	73	16	5	694	17	8

ANALYSIS OF TRANSFERS (DEBITS)

Bought Ledgers.																Total.		
1			2			3			4			5			6			7			8					
2	3	5	3	4	8	1	4	9	2	19	10	2	11	3	1	17	6	1	15	9	2	1	10	7	15	2
												etc.												10	3	10
												etc.														
												etc.														
8	7	3	9	1	6	4	11	8	36	2	9	18	5	9	4	14	10	5	12	2	30	3	9	116	19	8

ANALYSIS OF TRANSFERS (CREDITS)

Bought Ledgers.																Total.		
1			2			3			4			5			6			7			8					
10	2	7	4	15	9	2	9	8	1	13	7	6	1	7	1	17	4	4	3	7	1	15	6	25	3	6
												etc.												7	16	1
												etc.														
												etc.														
17	2	9	12	1	6	4	11	9	1	13	7	5	9	10	12	11	3	7	15	6	4	13	8	65	19	10

NOTE.—For analysis of Cash Book see page 216.

Dr. SALES LEDGER ADJUST

PARTICULARS.	Ledgers. 1	2	3	4	5	6	7	8	Total.
To Bal. 1 Jan. ..	578 1 6	597 4 3	686 15 7	706 2 9	795 14 2	611 10 5	706 2 9	656 11 5	5,838 2 10
„ Goods	317 4 5	326 9 2	234 10 6	198 3 7	84 11 1	356 13 9	208 2 10	276 12 2	2,002 7 6
„ Cash (dishonoured Bills)			170 11 9				155 9 11		326 1 8
„ Transfers ..	10 1 6	24 9 8	15 11 2	20 1 7	52 3 7	15 4 9	26 4 7	28 4 3	192 1 1
	905 7 5	948 3 1	1107 9 —	924 7 11	932 8 10	983 8 11	1096 — 1	961 7 10	7,858 13 1
To Bal. 1 Feb. ..	492 8 —	547 1 6	758 9 4	500 13 4	629 6 10	618 7 6	692 13 7	526 17 —	4,765 17 1

Dr. BOUGHT LEDGER ADJUST

	Ledgers. 1	2	3	4	5	6	7	8	Total.
To Cash and Discount ..	197 5 6	242 10 9	216 10 5	178 11 2	234 1 10	170 16 6	207 13 9	195 15 4	1,643 5 3
„ Bills Payable and Discount	87 3 9	65 12 2	76 4 3	89 9 5	101 4 2	96 2 8	105 4 10	73 16 5	694 17 8
„ Returns	27 1 6	12 3 9	15 1 7	24 3 9	37 13 6	29 1 11	19 6 8	25 11 7	190 4 3
„ Transfers	8 7 3	9 1 6	4 11 8	36 2 9	18 5 9	4 14 10	5 12 2	30 3 9	116 19 8
„ Bal. 31 Jan. ..	241 13 10	270 19 8	495 17 11	368 19 3	292 11 6	425 11 6	448 — 1	348 8 7	2,892 2 4
	561 11 10	600 7 10	808 5 10	697 6 4	683 16 9	726 7 5	785 17 6	673 15 8	5,537 9 2

Sectional Balancing.—It should be noted that this term is applied by some accountants to the Self-Balancing principle as adopted by those firms that balance their ledgers in groups instead of separately, two or three ledgers often forming a group. It is obvious that such a system, from the *general* point of view of organisation of accounts, is very unsatisfactory; because if a mistake is made, the whole group of ledgers has to be checked in order to find it. This entails much waste of time, as it involves the checking of ledgers which may be already accurate. There are, however, countervailing trade advantages or private reasons for adopting such methods.

Contra Account.—By this term is meant that we have both bought from, and sold to, the same person; and that while he is our debtor for the goods we have sold to him, and his account appears in the Sales Ledger, yet he is also our creditor for the goods we have bought from him, and his other account, called the "contra" account, appears in the Bought Ledger. In some cases the person concerned insists on the accounts being treated separately, and will

MENT ACCOUNTS. *Cr.*

Particulars.	Ledgers. 1	2	3	4	5	6	7	8	Total.
By Cash and Discount ..	278 9 2	256 11 9	212 19 10	268 3 10	178 9 2	256 14 7	287 16 2	296 15 8	2,036 – 2
,, Bills Receivable & Disct.	94 16 8	112 4 7	116 10 9	124 3 8	107 4 2	58 10 5	76 14 11	105 3 8	795 8 10
,, Returns ..	20 10 8	14 3 9	15 1 6	10 2 5	12 1 9	24 2 8	17 5 7	15 6 10	128 15 2
,, Transfers ..	19 2 11	18 1 6	4 7 7	21 4 8	5 6 11	25 13 9	21 9 10	17 4 8	132 11 10
,, Bal. 31 Jan.	492 8 –	547 1 6	758 9 4	500 13 4	629 6 10	618 7 6	692 13 7	526 17 –	4,765 17 1
	905 7 5	948 3 1	1107 9 –	924 7 11	932 8 10	983 8 11	1096 – 1	961 7 10	7,858 13 1

MENT ACCOUNTS. *Cr.*

Particulars.	Ledgers. 1	2	3	4	5	6	7	8	Total.
By Bal. 1 Jan. ..	346 5 2	297 11 8	516 7 10	493 2 11	385 6 11	493 5 8	516 6 9	381 15 2	3,430 2 1
,, Goods	198 3 11	285 4 2	287 6 3	202 9 10	291 18 5	219 10 6	259 4 5	287 6 10	2,031 4 4
,, Cash		5 10 6			2 1 7		2 10 10		10 2 11
,, Transfers ..	17 2 9	12 1 6	4 11 9	1 13 7	5 9 10	12 11 3	7 15 6	4 13 8	65 19 10
	561 11 10	600 7 10	808 5 10	697 6 4	684 16 9	725 7 5	785 17 6	673 15 8	5,537 9 2
By Bal. 1 Feb. ..	241 13 10	270 19 8	495 17 11	368 19 3	292 11 6	425 11 6	448 – 1	348 8 7	2,892 2 4

not have one set off against the other. In other cases settlement is effected by deducting one account from the other, and paying, or being paid, only the balance, according as the latter is due by us or to us. Hence the lesser account must be transferred to the greater, either the Bought Ledger Account to the Sales Ledger Account, or the Sales Ledger Account to the Bought Ledger Account, as the case may be. These transfers must be passed through the Journal and analysed into their proper columns, so that the Adjustment Accounts may be correctly constructed; for all such transfers must be recorded therein.

Contra Balances in Ledgers.—Strictly speaking, the Bought Ledger should contain all *credit* balances, and the Sales Ledger all *debit* balances, yet in practice it sometimes happens that in some of the Bought Ledger accounts there are sundry small *debit* balances, and also that in the Sales Ledger accounts there are sundry small *credit* balances. Take the case of the Sales Ledger. Accounts often include charges for packages. An account is settled in cash, and subsequently when the packages are empty they are returned

ANALYSIS OF CASH BOOK (RECEIPTS SIDE)

Sales Ledgers.								Bought Ledger.	General or Impersonal Ledger.	Special Items.	Total.
1	2	3	4	5	6	7	8				
29 15 3	86 13 9	84 7 11	49 1 8	46 19 1	92 11 8		27 3 11	5 10 6	78 4 6	1,000 – –	359 2 4
				etc.	27 16 10	72 14 9					1,241 17 6
				etc.							
				etc.							
278 9 2	256 11 9	212 19 10	268 3 10	178 9 2	256 14 7	287 16 2	296 15 8	10 2 11	159 14 2	1,000 – –	3,205 17 3

ANALYSIS OF CASH BOOK (PAYMENTS SIDE)

Bought Ledgers.								Sales Ledger.	General or Impersonal Ledger.	Special Items.	Total.
1	2	3	4	5	6	7	8				
14 2 9	78 16 5	27 12 3	57 14 8	85 16 9	95 1 7	72 13 10	54 13 6	170 11 9	27 2 8		227 8 3
									63 4 2		360 2 1
				etc.							
				etc.							
				etc.							
197 5 6	242 10 9	216 10 5	178 11 2	234 1 10	170 16 6	207 13 9	195 15 4	326 1 8	457 10 2		2,426 17 1

and have to be credited. At balancing time there may be no debit in the account to offset this credit. Mistakes are occasionally found after accounts have been settled, and their rectification sometimes involves the crediting of such accounts with a certain amount. These small credit balances are usually deducted from the total Debtors, and only the net amount of the Debtors shown in the Balance Sheet. And likewise with the Bought Ledger, the total of the small debit balances appearing in it is generally deducted from the Creditors, and only the net amount of the Creditors shown in the Balance Sheet. Some accountants, however, object to this on principle. In the Adjustment Accounts, therefore, they bring down both debit and credit balances, and also show them on the Balance Sheet. For example, suppose the Bought Ledger balances to amount to £3,465 15s. 8d. after deducting £9 14s. 10d., the total of sundry *debit* balances therein, and the Sales Ledger balances to amount to £8,457 10s. 11d. after deducting £5 6s. 8d., the total of sundry *credit* balances therein, the Adjustment Accounts in the General Ledger would appear as follows :—

Dr. BOUGHT LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19..					19..				
Jan. 1	To Balance	9	14	10	Jan. 1	By Balance	3,475	10	6

Dr. SALES LEDGER ADJUSTMENT ACCOUNT. *Cr.*

19..					19..				
Jan. 1	To Balance	8,462	17	7	Jan. 1	By Balance	5	6	8

And the Balance Sheet would be as under:—

BALANCE SHEET.

Liabilities.					*Assets.*				
Sundry Creditors as per Bought Ledger . .	3,475	10	6		Sundry Debtors as per Sales Ledger . .	8,462	17	7	
Add Sundry Cr. bal. in Sales Ledger . .	5	6	8		*Add* Sundry Dr. bal. in Bought Ledger .	9	14	10	
				3,480 17 2					8,472 12 5

Under the other method we should have :—

BALANCE SHEET.

Liabilities.					*Assets.*				
Sundry Creditors . .				3,465 15 8	Sundry Debtors . .				8,457 10 11

As can be seen, the final result in each case is a *net* debit of £4,991 15s. 3d., so that the double entry is not affected in any way. But by the two balances method we show the true financial position, *i.e.*, the *exact* amount of Debtors and Creditors. And this is the avowed reason for its adoption.

Private Ledger.—It will be noticed in the worked example that the Private Ledger contains only the Capital and Drawing Accounts. In practice, however, this Ledger, which is provided with a lock and key and is sometimes kept by the chief clerk or accountant who occupies a confidential post, often includes other accounts of a private nature, such as Loans, and in some cases the Bank balance, and the Stock. Without knowing the value of the Stock at the commencement and at the end of a period, it would be impossible for any clerk to arrive at the gross or net profit, even though he had access to all the other information. An earlier method of division of accounts, which is still to be found in many businesses, is to keep all the nominal and real accounts in the Private Ledger. Another method is to keep all the expense accounts in a Nominal Ledger, and to put all the real or property accounts, *e.g.*, Plant and Machinery, Bills, Stock, etc., into the Private Ledger. The modern tendency, however, is to group both the nominal and real accounts into one General or Impersonal Ledger.

Private Ledger Account.—Where it is not desired that any clerk shall have access to the Private Ledger, an Adjustment Account, called Private Ledger Account, is opened at the end of the General Ledger, and credited with the net balance of all the accounts in the Private Ledger. All items that should be posted to the Private Ledger are then debited or credited to the Private Ledger Account instead. The balance of the Private Ledger Account thus enables the Trial Balance to be completed without reference to the Private Ledger itself. At balancing time, the professional accountant who makes up the Profit and Loss Account and Balance Sheet, analyses the Private Ledger Account and posts the details to the proper accounts in the Private Ledger. He closes the Private Ledger Account for the past period by writing "*To Transfer to Private Ledger*," and re-opens it by writing "*By Balance*" the net amount for the new period.

The following example will serve as an illustration of the above procedure :—

In General Ledger

Dr. PRIVATE LEDGER ACCOUNT. *Cr.*

Feb. 15	To Cash	100	–	–	Jan. 1	By Balance	2,175	2	6
Apr. 20	,, ,,	100	–	–	June 30	,, Cash	1,000	–	–
June 25	,, ,,	100	–	–	Dec. 31	,, Cash Book totals	6,792	14	3
Sept. 17	,, ,,	100	–	–	,, ,,	,, Interest	275	–	–
Nov. 20	,, ,,	100	–	–					
Sept. 25	,, ,, (R. Brown)	500	–	–					
Dec. 31	,, Cash Book totals	7,597	16	5					
,, ,,	,, Transfer to Private Ledger	1,645	–	4					
		10,242	16	9			10,242	16	9
					Jan. 1	By Balance	2,834	19	11

In Private Ledger

Dr. BANK. **Cr.**

19..					19..				
Jan. 1	To Balance	1,200	–	–	Jan. to Dec.	By Cash Book totals	6,792	14	3
Jan. to Dec.	„ Cash Book totals	7,597	16	5	Dec. 31	„ Balance c/d	2,005	2	2
		8,797	16	5			8,797	16	5
19..									
Jan. 1	To Balance b/d	2,005	2	2					

Dr. LOAN FROM R. BROWN. **Cr.**

19..					19..				
Sept. 25	To Cash	500	–	–	Jan. 1	By Balance	1,000	–	–
Dec. 31	„ Balance c/d	500	–	–					
		1,000	–	–			1,000	–	–
					19..				
					Jan. 1	„ Balance b/d	500	–	–

Dr. DRAWINGS ACCOUNT. **Cr.**

19..					19..				
Jan. to Dec.	To Cash	500	–	–	Dec. 31	By Capital A/c	500	–	–

Dr. STOCK. **Cr.**

19..					19..				
Jan. 1	To Balance	2,624	17	6	Dec. 31	By Trading A/c	2,624	17	6
Dec. 31	To Trading A/c	2,289	15	5					

Dr. CAPITAL ACCOUNT. **Cr.**

19..					19..				
Dec. 31	To Drawing A/c	500	–	–	Jan. 1	By Balance	5,000	–	–
„	„ Balance c/d	6,629	17	6	June 30	„ Cash	1,000	–	–
					Dec. 31	„ Interest	275	–	–
					„	„ Profit and Loss	854	17	6
		7,129	17	6			7,129	17	6
					19..				
					Jan. 1	By Balance b/d	6,629	17	6

QUESTIONS ON CHAPTER VI

A

1. Define the term "self-balancing ledger."
2. State briefly the object of self-balancing ledgers.
3. What is meant by "sectional balancing"?
4. How are ledgers made self-balancing?
5. Explain the nature and construction of an "Adjustment Account."

6. State briefly the principle of proof underlying the "Adjustment Account."
7. Submit *pro forma* Adjustment Accounts for proving the Bought Ledger.
8. Submit *pro forma* Adjustment Accounts for proving the Sales Ledger.
9. Explain the connection between Adjustment Accounts and Total Checking Accounts.
10. What objections are raised against the practice of having "contra" Adjustment Accounts?

B

1. Submit rulings of the Purchases and Sales Books where the nature of the business necessitates departmental analysis as well as self-balancing ledgers.
2. Submit rulings of a Cash Book suitable for a business that divides its ledgers into sections (*a*) alphabetically, (*b*) departmentally.
3. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Bought Ledger.
4. Submit *pro forma* Journal entries for constructing the Adjustment Accounts relative to the Sales Ledger.
5. Supposing there are several small *debit* balances in the Bought Ledger, how should they be treated in preparing the Adjustment Account?
6. Supposing there are sundry small *credit* balances in the Sales Ledger, how will they affect the preparation of the Adjustment Account?
7. How will personal items in the Petty Cash Book affect the Adjustment Accounts?
8. How are contra accounts in the Bought Ledger dealt with when preparing the Sales Ledger Adjustment Accounts?
9. What is meant by a "Special Transfer Journal" for use with self-balancing ledgers? Submit *pro forma* ruling of such a book, and explain the method of procedure in connection therewith.
10. When the number of ledgers in use is too large for analytical columns to be provided in the Cash and subsidiary books, how is the material for Adjustment Accounts obtained?

C

1. What restricted meaning is sometimes applied to the term "sectional balancing"? What advantages and disadvantages are there with regard to the procedure comprehended under this restricted meaning?
2. What is meant by the term "contra account"?
3. How are contra accounts usually settled? What exceptions are there?
4. How does the transfer of contra accounts affect the Adjustment Accounts for the Bought and Sold Ledgers respectively? Should such transfers be made direct from one ledger account to the other? Give reasons for your answer.
5. How are the sundry *debit* balances in a Bought Ledger, and the sundry *credit* balances in a Sales Ledger, sometimes shown in the Balance Sheet, and why? Give examples. How do such balances arise?
6. What differences of opinion exist in practice with regard to the question as to what accounts should be kept in the Private Ledger?
7. What is the modern tendency with regard to the ledgering of nominal and real accounts?
8. How can the Bank Balance be kept from the knowledge of the staff? Why is the Stock Account sometimes kept in the Private Ledger?
9. Explain how a set of books may be kept and balanced by means of a monthly trial balance without giving the book-keeper access to the Private Ledger.
10. Give an example of the working of a Private Ledger Account in the General Ledger, and show the corresponding accounts in the Private Ledger

EXERCISE VI

1. What do you understand by the "sectional" system of balancing Ledgers?

In the business of X, Y, Z, & Co., the following books are in use:—1 "Bought" Ledger, 2 "Sold" Ledgers ("Town" and "Country"), 1 "Private and Nominal" Ledger, 1 "Bank" Cash Book, 1 Petty Cash Book, 2 Sales Books ("Town" and "Country"), 1 Purchases Book, and 1 Journal. Explain briefly what alterations (if any) it would be necessary to effect in these books in order to introduce the "sectional" system of balancing.—(*London Chamber of Commerce.*)

2. The following books are in use in a printing business, and are properly kept upon the ordinary double-entry system:—Cash Book (bank items only), Petty Cash Book (for all *cash* payments), Purchases Journal, Sales Journal, two Personal Ledgers ("A," town debtors, and "B," country debtors), Bought Ledger, and Nominal Ledger.

You are asked to re-arrange the system of book-keeping so that every ledger may be self-balancing. How would you effect this?—(*London Chamber of Commerce.*)

3. Briefly describe the uses of the Journal; and give particulars of the entries you would expect to find in the Journal of a business in which the "Sales" and "Bought" Ledgers were balanced independently, by means of adjustment accounts.—(*London Chamber of Commerce.*)

4. John Garside keeps his "Sales Ledger" upon the "self-balancing" principle.

Prepare the necessary "adjustment account" as on Jan. 31st, from the undermentioned particulars:—

Jan. 1.	Total debtors' debit balances at this date were .	£12,542
31.	Total goods sold to customers for the month .	21,658
	Total goods returned by customers for the month	942
	Total cash received from customers for the month	15,621
	Total discount allowed to customers for the month	968
	Total acceptances received from customers during the month	3,471
	Total acceptances dishonoured by customers during the month	542

—(*Royal Society of Arts.*)

5. Give suitable rulings for the Sales Journal of a wholesale business comprising three departments, viz.: "Mantles," "Dress Materials," and "Felts." There are two Sales Ledgers in use, viz.: "Town" and "Country," and each Ledger is kept upon the self-balancing principle.—(*London Chamber of Commerce.*)

6. Rule a form of Cash Book which would be necessary in a business in which a General Ledger, two Bought Ledgers and two Sold Ledgers are in use, all these Ledgers being "self-balancing." Explain briefly how you would put into practice the principles of "self-balancing" ledgers in connection with this Cash Book.—(*London Chamber of Commerce.*)

7. Illustrate the sectional system of self-balancing Ledgers by posting direct from the exercise given below, all the items necessary to form a complete Sales Ledger, render it self-balancing, and take out a Trial Balance.

Exercise

On March 1st, Samuel Sparrow, Merchant, had Cash in hand, £360 10s. 6d.; Goods on hand, £450 15s. Debtors:—James Crow, £220 12s. 6d.; Thomas Finch, £150 17s. 6d.; John Jay, £270 4s. 6d. Creditors:—Louis Lark, £180 17s. 9d.; Robert Rook, £200 2s. 3d.

Mar. 1.	Samuel Sparrow drew Cash for Self	£20	–	–
2.	Received Cash from J. Crow	210	–	–
	Discount allowed in addition	10	12	6
3.	Paid for Postages	1	7	6
4.	Cash Purchases	210	5	3
6.	Sold Goods to J. Crow	175	6	8
	Charged him for Carriage paid on above Goods	1	13	4
7.	Received Cash of T. Finch	147	–	–
	Discount allowed in addition	3	17	6
8.	Paid Rates	4	15	–
9.	Cash Sales	130	2	6
10.	T. Finch bought Goods	180	13	4
11.	Sales to L. Lark	50	–	–
13.	Paid L. Lark Cash	127	–	–
	Received Discount from him	3	17	9
14.	Sales to Hy. Robin	135	11	8
15.	Purchases from L. Lark	215	10	6
16.	Paid R. Rook Cash	195	–	–
	Received Discount from him	5	2	3
17.	Received Cash from Hy. Robin	35	11	8
18.	J. Crow bought Goods	28	10	–
20.	R. Rook sold me Goods	165	6	–
21.	Received Cash of John Jay in full settlement	255	10	–
	Wrote off his Balance as Bad Debt	14	14	6
22.	Bought Goods of Charles Wren	54	2	6
23.	Received Cash for a Bad Debt written off two years ago	27	15	0
24.	Purchases from R. Rook	45	10	2
25.	Paid R. Rook Cash	100	–	–
27.	Received Cash from J. Crow	77	–	–
28.	Paid Wages	16	17	6
29.	Paid Rent	25	–	–
31.	Interest on Capital	4	10	–
	Stock on hand	529	14	9

—(*National Union of Teachers.*)

8. The undermentioned particulars have been extracted from the books of Messrs. James Ogden & Co., who keep only one Sales Ledger. You are required to prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as on December 31st.

June 30.	Debtors' Balances	£28,394	12	6
Dec. 31.	Transactions for the half-year to date:—			
	Sales to Drs.	58,421	10	8
	Returns from Debtors	691	12	–
	Cash received from Debtors	41,344	8	6
	Discounts allowed to Debtors	1,504	9	3
	Acceptances received from Debtors	4,210	1	2
	Acceptances returned dishonoured	550	–	–
	Bad Debts written off	942	10	–
	Sundry charges debited to Debtors	29	4	6

—(*Chartered Accountants.*)

9. From the following particulars write up A. Allott's Bought Ledger

for the month of January, and make it self-balancing. Take out a Trial Balance in order to prove the accuracy of your work.

Ledger balances as at 1st Jan. :—S. Smith, £206 17s. 8d.; B. Brown, £156 15s. 2d.; J. Jones, £78 19s. 11d.; T. Thompson, £54 3s. 9d.; H. Hewitt, £168 13s. 6d.; L. Lovejoy, £202 2s. 6d.

His transactions for the month were as follows :—

Jan. 3.	Bought of S. Smith, Goods	£76	13	2
5.	Paid L. Lovejoy (Discount £9 4s. 9d.)	175	10	10
10.	Bought of B. Brown, Goods	134	16	8
11.	Returned Goods to J. Jones	13	14	8
12.	Paid H. Hewitt on account	50	–	–
14.	Accepted A. Brown's Draft (Discount £3 18s. 6d.)	74	12	–
17.	Bought of J. Jones, Goods	55	2	11
19.	Paid T. Thompson (Discount £2 14s. 2d.)	51	9	7
21.	Bought of T. Thompson, Goods	66	4	9
23.	Paid J. Jones on account	40	–	–
24.	Bought of H. Hewitt, Goods	173	12	3
25.	Paid B. Brown (Discount £3 18s. 3d.)	74	6	5
26.	Accepted H. Hewitt's Draft (Discount £3 5s. 9d.)	62	9	9
28.	Returned Goods to L. Lovejoy	17	6	11
30.	Bought of L. Lovejoy, Goods	157	6	10
31.	Paid S. Smith (Discount £10 6s. 11d.)	196	10	9

10. From the following particulars write up P. Zucker's Bought Ledger for the month of March, and make it self-balancing. Prove the accuracy of your work by drawing out a Trial Balance as at the end of the month.

The Creditors' balances as at 1st Jan. were :—L. Luke, £265 16s. 4d.; M. Matthew, £437 9s. 2d.; J. John, £185 18s. 11d.; M. Mark, £206 16s. 10d.; P. Paul, £147 18s. 9d.; S. Silas, £356 6s. 8d.

Zucker's transactions for the month were as follows :—

Mar. 4.	Bought of L. Luke, Goods	£247	9	3
6.	Paid to S. Silas on account	80	–	–
11.	Bought of M. Matthew	65	14	8
12.	Accepted L. Luke's Draft (Discount £8 0s. 10d.)	152	16	–
13.	Returned Goods to P. Paul	27	10	6
,,	Paid P. Paul (Discount £6 0s. 5d.)	114	7	10
18.	Bought of J. John, Goods	73	10	2
20.	Paid M. Mark (Discount £10 6s. 10d.)	196	10	–
22.	Bought of M. Mark, Goods	127	6	11
24.	Paid J. John (Discount £9 5s. 11d.)	176	13	–
25.	Bought of P. Paul, Goods	48	15	6
,,	Accepted S. Silas' Draft (Discount £10 6s. 10d.)	196	9	1
26.	Paid M. Matthew on account	100	–	–
27.	Returned Goods to M. Matthew	36	15	2
30.	Bought of S. Silas, Goods	165	18	10
31.	Paid L. Luke on account	50	–	–

11. You are required to write up, from the following particulars, E. Brockwell's Sales Ledger for the month of July. Make it self-balancing, and prove the accuracy of your work by means of a Trial Balance at the end of the month.

The opening Ledger balances on 1st July were :—B. Beard, £126 7s. 4d.; C. Cowan, £137 10s. 11d.; D. Doggett, £85 4s. 6d.; E. Eley, £97 13s. 10d.; F. Foxwell, £175 15s. 2d.; G. Graves, £186 4s. 8d.

The following were his transactions for the month:—

July 3.	Sold Goods to B. Beard	£62	10	8
4.	G. Graves returned Goods	23	19	11
5.	Received from G. Graves (Discount £8 2s. 3d.)	154	2	6
6.	F. Foxwell accepted our Draft (Discount £4 15s. 9d.)	90	19	5
10.	Sold Goods to C. Cowan	74	2	11
12.	Received Cash from F. Foxwell on account	50	–	–
17.	Sold Goods to D. Doggett	165	17	4
19.	Received from E. Eley (Discount £4 17s. 8d.)	92	16	2
21.	Sold Goods to E. Eley	120	13	6
23.	Received from D. Doggett (Discount £4 5s. 3d.)	80	19	3
,,	C. Cowan returned Goods	16	12	9
24.	Sold Goods to F. Foxwell	88	18	8
25.	Received from C. Cowan (Discount £2 17s. 6d.)	54	12	8
26.	B. Beard accepted our Draft (Discount £3 6s. 10d.)	63	9	10
30.	Sold Goods to G. Graves	99	19	9
31.	Received from B. Beard on account	40	–	–

12. From the following particulars write up G. Gardener's Sales Ledger for the month of October. Make it self-balancing, and verify the accuracy of your work by drawing up a Trial Balance as at the end of the month.

The Debtors' balances on 1st October were:—A. Andrews, £174 10s. 6d.; B. Binnie, £178 15s. 5d.; C. Carter, £168 16s. 8d.; O. Orford, £207 13s. 2d.; P. Peel, £126 15s. 11d.; T. Turner, £185 10s. 10d.

Gardener's transactions for the month were as follows:—

Oct. 4.	Sold Goods to A. Andrews	£185	12	11
6.	Received from T. Turner on account	70	–	–
7.	A. Andrews accepted our draft (Discount £4 6s. 9d.)	82	8	5
8.	P. Peel returned Goods	15	14	7
11.	Sold Goods to B. Binnie	196	10	10
13.	Received from P. Peel (Discount £5 11s. 1d.)	105	10	3
18.	Sold Goods to C. Carter	156	11	5
20.	Received from O. Orford (Discount £10 7s. 8d.)	197	5	6
22.	Sold Goods to O. Orford	163	12	7
23.	B. Binnie returned Goods	16	10	8
24.	Received from C. Carter (Discount £8 8s. 10d.)	160	7	10
25.	Sold Goods to P. Peel	199	19	9
27.	Received from B. Binnie (Discount £8 2s. 3d.)	154	2	6
29.	T. Turner accepted our draft (Discount £3 15s. 8d.)	71	17	10
31.	Sold Goods to T. Turner	187	17	8
,,	Received from A. Andrews on account	50	–	–

13. On 1st Jan. Graham and Winder, who were equal partners in a business possessed the following Assets and Liabilities:—Stock, £2,750; Cash, £1,725; Plant and Machinery, £2,550; Creditors, £1,720; Debtors, £2,645. The Debtors and Creditors were as follows:—

Debtors.		*Creditors.*	
Moore	£574.	Horsham	£236.
Roberts	206	Piggott	350.
Harrison	495.	Manton	272.
Squires	369.	Coles	314.
Farrow	573.	Day	285.
Lonsdale	428.	Bullen	263.

The following were their transactions for the month of January :—

	Sales.	*Cash Received.*	*Discount Allowed.*
	£	£	£
Moore	276	546	28
Roberts	365	196	10
Harrison	198	466	29
Squires	457	351	18
Farrow	584	545	28
Lonsdale	343	407	21

	Purchases.	*Cash Paid.*	*Discount Received.*
	£	£	£
Horsham	274	225	11
Piggott	298	333	17
Manton	237	259	13
Coles	196	299	15
Day	189	271	14
Bullen	285	250	13
Sundry Exs.		263	
Graham		35	
Winder		35	
Salaries		75	
Wages		125	

Record the above transactions in their proper Ledgers, make them self-balancing, and extract Trial Balances. Close the books as at 31st Jan. Reserve £100 for Bad Debts, £125 for Outstanding Sundry Expenses, and provide for Depreciation of Plant and Machinery at the rate of 12 % per annum. Charge also Interest on Capital at 5 % per annum. Stock in hand 31st Jan. was £3,150.

14. H. Holland is in business, and on 1st Jan. his assets and liabilities are :—Cash, £50 ; Bank, £870 ; Stock, £1,000 ; Bills Receivable, £375 ; Furniture and Fixtures, £200 ; Plant and Machinery, £1,700 ; A. Arthur, *Dr.*, £275 16s. 4d. ; B. Brown, *Dr.*, £361 14s. 2d. ; F. Flower, *Dr.*, £250 12s. 2d. ; C. Cook, *Dr.*, £873 5s. 11d. ; Bills Payable, £420 ; D. Dunlop, *Cr.*, £174 13s. 2d. ; G. Garnet, *Cr.*, £127 16s. 10d. ; E. Ernest, *Cr.*, £86 15s. 9d. ; F. Franklin, *Cr.*, £217 6s. 10d.

His transactions for the month are as follows :—

		£	s.	d.
Jan. 4.	Sold to A. Arthur, Goods	359	8	7
,,	Paid Wages	27	13	6
7.	Bought from D. Dunlop, Goods	612	1	7
10.	Received from B. Brown (Discount £18 1s. 8d.)	343	12	6
11.	Paid Wages	31	14	8
13.	Sold to B. Brown, Goods	246	10	2
,,	Paid D. Dunlop (Discount £8 14s. 8d.)	165	18	6
14.	Bought from E. Ernest, Goods	459	3	8
15.	Received from A. Arthur (Discount £13 15s. 9d.)	262	0	7
,,	B. Brown returned Goods	17	16	2
,,	F. Flower accepted our Draft (Discount £12 10s. 7d.) Bill No. 59, dated Jan. 13th at 2 m/d	238	1	7
15.	Paid Acceptance No. 86	270	–	–
16.	Bill Receivable No. 56 duly met at Bank	120	–	–
,,	Paid E. Ernest (Discount £4 6s. 9d.)	82	9	–
18.	Sold to F. Flower, Goods	209	12	4
,,	Paid Wages	42	16	9
19.	Paid Acceptance No. 85	150	0	0
21.	Bought from F. Franklin, Goods	275	10	6

		£	s.	d.
Jan. 22.	Accepted G. Garnet's Draft (Discount £6 7s. 10d.) Acceptance No. 87, dated Jan. 21st at 2 m/d	121	9	–
,,	Received from C. Cook (Discount £43 13s. 4d.)	829	12	7
23.	Paid F. Franklin (Discount £10 17s. 4d.)	206	9	6
,,	Received payment of Bill No. 57	155	–	–
24.	Bill No. 54, accepted by A. Arthur, returned by Bank dishonoured, noting charges, 7s. 6d.	155	7	6
,,	Bought from G. Garnet, Goods	216	12	2
,,	Returned to F. Franklin, Goods	10	12	8
25.	Paid Wages	30	6	10
26.	Bill Receivable No. 58 duly met	100	–	–
27.	Sold to C. Cook, Goods	316	15	8
,,	Drew for Self	50	–	–
31.	Ready Money Purchases	24	15	2
,,	Paid Salaries	42	10	8
,,	Paid Rent, Rates, and Taxes	27	19	6
,,	Paid Trade Expenses	17	4	11
,,	Ready Money Sales for month	27	13	5

You are required to record the above transactions in the proper subsidiary books, post to separate Ledgers and make them self-balancing, and to verify the accuracy of your work by extracting Trial Balances as at the end of the month.

15. Rework the model exercise on page 192, but halving all the figures given. Ignore fractions of a penny.

16. Rework the model exercise mentioned above, but doubling all the figures given.

REVISION EXERCISE VI

1. What is the difference (if any) between "Fixed" and "Floating" assets?

Designate to which class the undermentioned assets, the property of a boot manufacturer, belong:—

Book debts; stock-in-trade; consols £200; plant and machinery; freehold land; bills receivable; goodwill; patents.—(*London Chamber of Commerce.*)

2. What is the difference between a Trial Balance and a Balance Sheet?

The *Dr.* balance of a Personal Account amounting to £250 has been carried to the Revenue Account in error. How will this affect:—

(*a*) The Trial Balance and (*b*) the Balance Sheet?

—(*National Union of Teachers.*)

3. Richard Scott bought of the "Yorkshire Coal Company" 520 tons of Silkstone Coal, net in truck at the Colliery, 12s. 6d. per ton, with 9d. per ton added for waggon hire. He paid one-half the amount in cash, and gave his acceptance at three months, dated 1st July, for the balance plus 5 % Discount on the Bill, and 1 % Commission. Show the entries as they would appear in the books of the Colliery Company.—(*London Chamber of Commerce.*)

4. What is a Profit and Loss Account? What is the nature of the various items of which it is composed, and on which side are such items recorded, and how is the final balance disposed of?—(*London Chamber of Commerce.*)

5. Make out the Trading Account of the Flyaway Bicycle Co. from:—

Jan. 1.	Stock of Finished Machines.	£9,600
,,	Stock of Raw Materials	2,500
Dec. 31.	Materials purchased during year	12,500
,,	Productive Wages paid	16,500
,,	Manufacturing Expenses	4,600

Dec. 31.	Sundry Branch Expenses	£8,000
„	Travellers' Salaries	3,000
„	Agents' Commissions	1,800
„	Bad Debts	1,650
„	Depreciation of Machinery and Plant	1,250
During the year 10,000 Machines were sold, realising in the aggregate		105,000
On the 31st December, the cost price value of the Raw Material on hand was		2,200
And the Stock of 460 Finished Machines on hand		3,680

After making out the Trading Account, prepare a Profit and Loss Account. Also state what the Gross Profit on the year's working was.—(*West Riding of Yorkshire.*)

6. Record the following in the books of both parties :—On 1st March, I. Iron accepts a three months' bill for £126 10s. 6d. drawn on him by S. Steel for the latter's benefit. Steel discounts the bill at the rate of 3½ %, and at maturity forwards Iron a cheque with which to meet the bill.

7. From the following particulars draw up, in two forms, the Balance Sheet of A. Allott and J. Jones, who are equal partners, as at 31st Dec. :—

Bills Payable, £247 ;
Bills Receivable, £844 ;
Stock-in-trade, £1,200 ;
Sundry Creditors, £1,140 ;
Furniture and Fixtures, £120, *less* depreciation at 5 % per annum ;
Sundry Debtors, £2,800 ;
A. Allott, Capital 1st Jan., £3,440 ;
J. Jones, Capital 1st Jan., £3,440 ;
Cash in hand, £29 ;
Cash at Bank, £820 ;
Cash on Deposit, £150.
Loan from N. Notley, £750 ;
Premises, £2,050, *less* depreciation, £50 ;
Outstanding Expenses, £32 ;
Plant and Machinery, £1,400, *less* depreciation at 10 % per annum ;
Unexpired Insurance, Telephone Rent, and Trade Subscriptions, £27 ;
Goodwill, £730, *less* amount written off, £200 ;
Investments, £500 Consols at 87 ;
Consignment Account, £450 ;
Reserve for Bad Debts, £140 ;
Reserves for Discount—on Debtors, £133, on Creditors, £57 ;
Partners' Drawings, £500 each ;
Net Profit for year, after charging the above reserves and depreciation and Interest on Capital at 5 %, £2,050.

8. N. Norton has the following transactions with G. Gregory :—

19—
Jan. 1. Sold goods to Gregory, £280.
Feb. 15. Received Cash from Gregory, £100.
Mar. 2. Bought goods from Gregory, £690.
3. Accepted Gregory's draft at 1 m/d for £200.
Apr. 11. Cash paid to Gregory, £200.
30. Goods sold to Gregory, £232, due end of May.
May 11. Bought goods from Gregory, £170.
31. Sold Goods to Gregory, £250.
June 15. Bought Goods from Gregory, £290, due end of July.

Make out an Account Current to be rendered by N. Norton at 30th June, bringing interest into account at the rate of 5 % per annum.

9. A merchant has bought goods due as under :—

£440 due April 18th.
£250 „ 36 days after April 18th.
£400 „ 73 „ „ „ „
£700 „ 91 „ „ „ „

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it ?

10. J. Walters and B. Dove are in partnership as Joiners and Timber Merchants.

The following balances were extracted from their books as on June 30th :—

	£		£
Purchases—		B. Dove, Drawing Account	1,000
Timber	13,926	Discount Account (*Dr.* balance)	91
Ironmongery and General Stores	421	Mouldings Sales	9,766
Painters' and Polishers' Materials	197	Weather Bar Sales	1,248
Fuel and Oil	413	Bad Debt Reserve	207
Manufactured Goods	159	Advertising	189
Land and Buildings	14,661	Office Salaries	851
Machinery and Plant	6,743	Interest and Commission	374
Boiler and Heating Apparatus	498	Postage and Telegrams	132
Repairs and General Charges	177	Rent, Rates, and Taxes	513
Loose Tools as on 1st July	1,524	Legal Expenses and Audit Fee	127
Freight	1,261	Travelling Expenses	409
Stationery and Office Expenses	350	Purchases Returns	721
Electric Light	92	Sales Returns	1,624
Stable Expenses	234	Stock as on 1st July	8,742
Joinery Sales	25,747	Sundry Debtors	12,448
Wages	12,975	„ Creditors	9,693
Catalogues and Price Lists at cost	122	Bills Receivable	271
J. Walters, Drawing Account	1,500	Cash at Bank	2,678
		„ in hand	128
		J. Walters, Capital Account	20,231
		B. Dove, Capital Account	17,217

Before closing the books the following adjustments are necessary :—

1. Write off £500 from the Land and Buildings Account for depreciation on buildings.
2. Write off 10 % depreciation from the Machinery and Plant and Boiler and Heating Apparatus Accounts.
3. Make the Reserve for Bad Debts up to £500.
4. Charge 5 % interest on Capital but not on Drawings.
5. Write off the whole of the cost of the catalogues and price lists.

The Stock on June 30th, was valued by the partners at £11,247, and the Loose Tools at £1,312. The profits are shared as to three-fifths to Walters and as to two-fifths to Dove.

Bills Receivable, not due until after June 30th, amounting to £1,114, had been discounted prior to that date.

You are required to prepare Trading and Profit and Loss Accounts for the year ended June 30th, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

CHAPTER VII

RESERVES FOR BAD DEBTS AND DISCOUNTS

Bad Debts Reserve.—This is a charge made against profits in order to provide for possible bad debts.

How the Amount of the Reserve is Ascertained.—The amount of the Reserve is either the total of a specially compiled list of doubtful amounts, or a fixed percentage of the total debtors, or, in some cases a small percentage ($\frac{1}{2}$% and upwards) of the turnover or total sales, based on past experience. The bad debts, however, usually stand in direct relation to the debtors and not to the total sales, and the last-named method is only applicable where the debts are very numerous, and where the Bad Debts may be considered to be uniformly in proportion to the trade done.

Object of making a Reserve.—The object of making the Reserve is in order to show the debtors on the Balance Sheet at their true value if possible. It is misleading to show—say—£5,000 Debtors as an asset on the Balance Sheet if at least 5 % of them, namely £250, are possible bad debts. On the Balance Sheet, therefore, the Reserve, although a credit balance, is not placed on the liabilities side, but is shown on the *assets* side, as a deduction from the debtors.

Methods of Creating a Reserve.—Two methods are in use with regard to the construction of the Reserve :—

(1) The amount of the Reserve is debited direct to Profit and Loss Account, and credited to a Bad Debts Reserve Account.

(2) The amount of the Reserve is debited to the Bad Debts Account, and credited to a Bad Debts Reserve Account. In some cases the Reserve is not placed in a separate account, but is brought down as a credit balance in the Bad Debts Account itself. This method (though quite usual commercially) is puzzling to a student, as it leaves room for doubt whether the item " Bad Debts Account, credit balance," denotes some Bad Debts Recovered, or whether it stands for the Bad Debts Reserve.

Objections have been raised against both ways. As regards the first way, it means that Profit and Loss Account must be opened before the Trial Balance is completed; otherwise, the student working a continuous exercise (*i.e.*, one not in two separate parts) must omit the entry for the Bad Debts Reserve until he makes the Profit and Loss Account. With respect to the second way, it is urged that the amount is not an *actual* bad debt, but only a *possible* bad debt; that we are, therefore, showing a fictitious amount for Bad Debts, and thereby rendering all comparisons of amounts for different years inaccurate and misleading.

Methods of Dealing with the Reserve and the Bad Debts Account. – With respect to this, two methods obtain :—

(1) The Bad Debts are transferred direct to Profit and Loss Account, thus ignoring the Reserve created specially to meet them. The two Reserves are then adjusted by themselves. If the old Reserve is not large enough, the extra amount required is debited to Profit and Loss Account, and credited (or added on) to the Reserve. If the old Reserve is too large, then the surplus not required is debited to (or subtracted from) the Reserve, and credited back to Profit and Loss Account.

(2) The Bad Debts are transferred to the Reserve made specially for them, so far as it is sufficient to meet them. Any balance beyond the amount of the Reserve must be debited to Profit and Loss Account, in addition to the amount of the new Reserve. Should, however, the Reserve be greater than the amount of the Bad Debts, then the surplus will be carried forward to the new Reserve, and thus go to reduce the amount debited to Profit and Loss Account in order to make the fresh Reserve.

Example 1.—The Bad Debts Reserve at 1st Jan. was £120 10s. 6d. The Bad Debts during the year amounted to £105 11s. 9d. The Debtors at 31st Dec. are £2,706 14s. 2d. Make a new Reserve of 5 %. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries.

First Method

JOURNAL.

			Dr.			*Cr.*		
19—								
Dec. 31	Profit and Loss . . .		105	11	9			
	To Bad Debts . . .					105	11	9
	Transfer of balance.							
31	Profit and Loss . . .		14	16	2			
	To Bad Debts Reserve. .					14	16	2
	Additional amount required to raise Reserve from £120 10s. 6d. to £135 6s. 8d. (5 % on £2,706 14s. 2d.)							

LEDGER

Dr. BAD DEBTS. *Cr.*

19—					19—				
Jan. to Dec.	To Sundry Drs. .	105	11	9	Dec. 31	By Profit and Loss A/c . .	105	11	9

Dr. BAD DEBTS RESERVE. *Cr.*

19—					19—				
Dec. 31	To Amount c/d .	135	6	8	Jan. 1	By Balance . .	120	10	6
					Dec. 31	,, Profit and Loss	14	16	2
		135	6	8			135	6	8
					19—				
					Jan. 1	By Balance b/d .	135	6	8

Dr. PROFIT AND LOSS ACCOUNT.

To Bad Debts				105	11	9
,, Bad Debts Reserve 5 % £2,706 14s. 2d.	135	6	8			
Less Old Reserve. . . .	120	10	6			
				14	16	2

BALANCE SHEET

Assets.						
Sundry Debtors	2,706	14	2			
Less Bad Debts Reserve . . .	135	6	8			
				2,571	7	6

Alternative Method

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Bad Debts Reserve. . .	105	11	9			
	To Bad Debts . . .				105	11	9
	Transfer of balance.						
31	Bad Debts	120	7	11			
	To Bad Debts Reserve. .				120	7	11
	Additional amount required to raise balance of Reserve from £14 18s. 9d. to £135 6s. 8d. (5 % on £2,706 14s. 2d.)						
31	Profit and Loss . . .	120	7	11			
	To Bad Debts . . .				120	7	11
	Transfer of balance.						

LEDGER

Dr. BAD DEBTS. *Cr.*

19—					19—				
Jan. to Dec.	To Sundry Drs. .	105	11	9	Dec. 31	By Bad Debts Reserve .	105	11	9
Dec. 31	,, Bad Debts Reserve . .	120	7	11		,, Profit and Loss	120	7	11
		225	19	8			225	19	8

Dr. BAD DEBTS RESERVE. *Cr.*

19—					19—				
Dec. 31	To Bad Debts .	105	11	9	Jan. 1	By Balance . .	120	10	6
,,	,, Balance c/d .	135	6	8	Dec. 31	,, Bad Debts .	120	7	11
		240	18	5			240	18	5
					19—				
					Jan. 1	By Balance b/d .	135	6	8

Dr. PROFIT AND LOSS ACCOUNT.

To Bad Debts				120	7	11

BALANCE SHEET

Assets.						
Sundry Debtors	2,706	14	2			
Less Bad Debts Reserve . . .	135	6	8			
				2,571	7	6

Example 2.—On 1st Jan. the Bad Debts Reserve was £86 10s. 11d. The Bad Debts during the year amounted to £115 3s. 8d. The Debtors at 31st Dec. are £2,846 15s. 5d., and a new Reserve of 5 % thereof is required. Make the necessary Journal and Ledger entries, and show the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL. *Dr.* *Cr.*

19—							
Dec. 31	Profit and Loss . . .	115	3	8			
	To Bad Debts . . .				115	3	8
	Transfer of balance.						
31	Profit and Loss . . .	55	15	10			
	To Bad Debts Reserve. .				55	15	10
	Additional amount required to raise Reserve from £86 10s. 11d. to £142 6s. 9d. (5 % on £2,846 15s. 5d.)						

LEDGER

Dr. BAD DEBTS. *Cr.*

19—					19—				
Jan. to Dec.	To Sundry Drs. .	115	3	8	Dec. 31	By Profit and Loss A/c . .	115	3	8

Dr. BAD DEBTS RESERVE. *Cr.*

19—					19—				
Dec. 31	To Amount c/d	142	6	9	Jan. 1	By Balance	86	10	11
					Dec. 31	„ Profit and Loss A/c	55	15	10
		142	6	9			142	6	9
					19—				
					Jan. 1	By Balance b/d	142	6	9

Dr. PROFIT AND LOSS ACCOUNT.

To Bad Debts				115	3	8
„ Bad Debts Reserve 5% £2,846 15s. 5d.	142	6	9			
Less Old Reserve.	86	10	11			
				55	15	10

BALANCE SHEET

Assets.						
Sundry Debtors	2,846	15	5			
Less Bad Debts Reserve	142	6	9			
				2,704	8	8

Alternative Method

JOURNAL. *Dr.* *Cr.*

19—							
Dec. 31	Bad Debts Reserve.	86	10	11			
	To Bad Debts				86	10	11
	Transfer of balance.						
31	Bad Debts	142	6	9			
	To Bad Debts Reserve.				142	6	9
	Amount required for new Reserve (5% on £2,846 15s. 5d.)						
31	Profit and Loss	170	19	6			
	To Bad Debts				170	19	6
	Transfer of balance.						

LEDGER

Dr. BAD DEBTS. *Cr.*

19—					19—				
Jan. to Dec.	To Sundry Drs.	115	3	8	Dec. 31	By Bad Debts Reserve	86	10	11
Dec. 31	„ Bad Debts Reserve	142	6	9	„	„ Profit and Loss A/c	170	19	6
		257	10	5			257	10	5

Dr. BAD DEBTS RESERVE. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Bad Debts .	86	10	11	Jan. 1	By Balance . .	86	10	11
,,	,, Balance c/d .	142	6	9	Dec. 31	,, Bad Debts .	142	6	9
		228	17	8			228	17	8
					19—				
					Jan. 1	By Balance b/d .	142	6	9

Dr. PROFIT AND LOSS ACCOUNT.

To Bad Debts				170	19	6

BALANCE SHEET

Assets.						
Sundry Debtors	2,846	15	5			
Less Bad Debts Reserve . . .	142	6	9			
				2,704	8	8

Example 3.—On 1st Jan. the Bad Debts Reserve was £206 12s. 9d. The Bad Debts during the year amounted to £55 5s. 8d. The Debtors at 31st Dec. are £2,427 16s. 7d., and a new Reserve of 5 % is required. Make the necessary Journal and Ledger entries, and show also the Profit and Loss Account and Balance Sheet.

First Method

JOURNAL. *Dr.* *Cr.*

19—		£	s.	d.	£	s.	d.
Dec. 31	Profit and Loss A/c. . .	55	5	8			
	To Bad Debts . . .				55	5	8
	Transfer of balance.						
31	Bad Debts Reserve. . .	85	4	11			
	To Profit and Loss A/c. .				85	4	11
	Amount credited back to Profit and Loss A/c in order to reduce Reserve from £206 12s. 9d. to £121 7s. 10d. (5 % on £2,427 16s. 7d.)						

LEDGER

Dr. BAD DEBTS. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. to Dec.	To Sundry Drs. .	55	5	8	Dec. 31	By Profit and Loss	55	5	8

Dr. BAD DEBTS RESERVE. *Cr.*

19—					19—				
Dec. 31	To Profit and Loss A/c	85	4	11	Jan. 1	By Balance	206	12	9
"	" Balance c/d	121	7	10					
		206	12	9			206	12	9
					19—				
					Jan. 1	By Balance b/d	121	7	10

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Bad Debts	55	5	8	By Bad Debts Reserve— Old Reserve £206 12 9 *Less* New " 121 7 10	85	4	11

BALANCE SHEET

Assets.						
Sundry Debtors	2,427	16	7			
Less Bad Debts Reserve	121	7	10			
				2,306	8	9

Alternative Method

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Bad Debts Reserve. To Bad Debts. Transfer of balance.	55	5	8	55	5	8
31	Bad Debts Reserve. To Profit and Loss. Amount credited back to Profit and Loss A/c to reduce Reserve from £151 7s. 1d. to £121 7s. 10d. (5% on £2,427 16s. 7d.)	29	19	3	29	19	3

LEDGER

Dr. BAD DEBTS. *Cr.*

Jan. to Dec.	To Sundry Drs.	55	5	8	Dec. 31	By Bad Debts Reserve	55	5	8

Dr. BAD DEBTS RESERVE. *Cr.*

19—					19—				
Dec. 31	To Bad Debts	55	5	8	Jan. 1	By Balance	206	12	9
"	" Profit and Loss A/c	29	19	3					
"	" Balance c/d	121	7	10					
		206	12	9			206	12	9
					19—				
					Jan. 1	By Balance b/d	121	7	10

Dr.	PROFIT AND LOSS ACCOUNT.						*Cr.*
				By Bad Debts Reserve . .	29	19	3

BALANCE SHEET

Assets.						
Sundry Debtors	2,427	16	7			
Less Bad Debts Reserve . . .	121	7	10			
				2,306	8	9

Other Methods.—Commercial practice in some parts of the country favours the method of bringing down the Reserve in the Bad Debts Account itself, the argument being that it is preferable to show the total amount of Bad Debts (including Reserve) for the Profit and Loss Account in *one* sum, as this facilitates comparison of one year with another. The following workings of the examples given will exemplify this practice:—

Example 1.—

Dr.	BAD DEBTS.							*Cr.*		
19—					19—					
Jan.–Dec.	To Sundry Debtors .	105	11	9	Jan. 1	By Balance b/f . .		120	10	6
Dec. 31	„ Reserve—5% £2,706 14s. 2d. c/d	135	6	8	Dec. 31	„ Profit and Loss .		120	7	11
		240	18	5				240	18	5
					19—					
					Jan. 1	By Balance b/d . .		135	6	8

Example 2.—

Dr.	BAD DEBTS.							*Cr.*		
19—					19—					
Jan.–Dec.	To Sundry Debtors .	115	3	8	Jan. 1	By Balance b/f . .		86	10	11
Dec. 31	„ Reserve—5% £2,846 15s. 5d. c/d	142	6	9	Dec. 31	„ Profit and Loss .		170	19	6
		257	10	5				257	10	5
					19—					
					Jan. 1	By Balance b/d . .		142	6	9

Example 3.—

Dr.	BAD DEBTS.							*Cr.*		
19—					19—					
Jan.–Dec.	To Sundry Debtors .	55	5	8	Jan. 1	By Balance b/f . .		206	12	9
Dec. 31	„ Reserve—5% £2,427 16s. 7d. c/d	121	7	10						
„	„ Profit and Loss .	29	19	3						
		206	12	9				206	12	9
					Jan. 1	By Balance b/d . .		121	7	10

RESERVES FOR DISCOUNT

Reserve for Discount on Debtors.—This is a charge made against profits, in order to provide for an expected loss in the shape of discounts that will have to be allowed to the firm's debtors on payment of their accounts.

Reserve for Discount on Creditors.—This is an addition to the profits, to provide for those discounts expected to be received on payment of the firm's creditors.

Object of Making Discount Reserves.—The object of making reserves for discount is that the Debtors and Creditors shall appear on the Balance Sheet at their true value; otherwise, we should be *overstating* both our assets and liabilities. For this reason, therefore, such Reserves are usually shown on the Balance Sheet as deductions from the Debtors and Creditors respectively.

Arguments For and Against Discount Reserves.—Some accountants urge that discounts expected to be allowed, and received, should not be taken into account at all; that these discounts should, properly speaking, appear only in the same period as the Cash receipts or payments to which they belong. One argument *for* them has already been mentioned, namely, the overstating otherwise of the Debtors and Creditors. Another argument urged in their favour is, that the Debtors are the result of sales, and that on each sale a certain amount of profit has been taken credit for, even though the debt has not actually been paid, and that the discount to be allowed to the debtor on payment of the account is really a reduction of that profit to a smaller amount, and should therefore fall in the same period as the one in which the profit has been shown; so that only the exact amount of profit on each sale shall be taken credit for. And if it be right thus to anticipate the profit on the sale (for the profit is not really made unless and until the debt is actually paid), it surely cannot be wrong to anticipate any loss that will be made in the realising of such profit.

Methods of Making the Reserves.—The Reserves are made by means of a Journal entry direct to Profit and Loss Account. Another method is to debit or credit them to the Discount Account. The objection to the latter method is that these amounts are not *actual* discounts but only Reserves.

How the Amounts of the Reserves are Arrived At.—The Discount Reserves may be the amounts of specially compiled lists of discounts allowable and receivable, but, generally speaking, they are calculated by means of a fixed percentage on the amount of the outstanding Debtors and Creditors. Any new Reserves that are made must, of course, be adjusted each year with the old ones, as we do not require double Reserves. The method of treatment is similar to that adopted with Reserves for Bad Debts.

Note on Reserve for Discount on Debtors.—The Reserve for

Discount on Debtors should, properly speaking, be calculated on the *good* Debtors, that is, on the amount of the Debtors *less* the new Bad Debts Reserve (if any). A debt cannot be both good and bad. If we reserve for it being bad, we shall not require discount on it. On the other hand, should the debt turn out good, then the amount we have reserved for it as a bad debt will be much greater than the discount allowed on it. To make *ample* provision for losses is all that is required; there is no object in making *excessive* provision.

Example 1.—The Sundry Debtors at 31st Dec. are £4,726 15s. 9d. A Bad Debts Reserve of 5 % is made, and also a Discount Reserve of 5 %. The Discounts Allowed during the year amounted to £167 2s. 11d. The Discount Reserve on 1st Jan. was £200 13s. 6d. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL.

		Dr.			Cr.		
19—							
Dec. 31	Profit and Loss A/c. . .	167	2	11			
	To Discounts Allowed . .				167	2	11
	Transfer of balance.						
31	Profit and Loss A/c. . .	23	16	11			
	To Reserve for Discount on Drs.				23	16	11
	Amount required to raise old Reserve from £200 13s. 6d. to £224 10s. 5d. (5 % on £4,490 9s. 0d., viz. £4,726 15s. 9d., less Reserve for Bad Debts, £236 6s. 9d.)						

LEDGER

Dr. DISCOUNTS ALLOWED. Cr.

19—					19—				
Dec. 31	To Sundries . .	167	2	11	Dec. 31	By Profit and Loss	167	2	11

Dr. RESERVE FOR DISCOUNT ON DEBTORS. Cr.

19—					19—				
Dec. 31	To Balance c/d .	224	10	5	Jan. 1	By Balance . .	200	13	6
					Dec. 31	„ Profit and Loss A/c . .	23	16	11
		224	10	5			224	10	5
					19— Jan. 1	By Balance b/d .	224	10	5

Dr. PROFIT AND LOSS ACCOUNT.

To Discounts Allowed				167	2	11
„ Reserve for Discount on Debtors	224	10	5			
Less Old Reserve . . .	200	13	6	23	16	11

BALANCE SHEET

Assets.						
Sundry Debtors	4,726	15	9			
Less Bad Debts Reserve . . .	236	6	9			
	4,490	9	–			
Less Discount Reserve . . .	224	10	5			
				4,265	18	7

Alternative Method

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Reserve for Discount on Drs. .	167	2	11			
	To Discounts Allowed . .				167	2	11
	Transfer of balance.						
31	Discounts Allowed . . .	190	19	10			
	To Reserve for Discount on Drs.				190	19	10
	Additional amount required to raise Old Reserve from £33 10s. 7d. to £224 10s. 5d. (as above).						
31	Profit and Loss A/c. . .	190	19	10			
	To Discounts Allowed . .				190	19	10
	Transfer of balance.						

LEDGER

Dr. DISCOUNTS ALLOWED. *Cr.*

19—					19—				
Jan. to Dec.	To Sundries . .	167	2	11	Dec. 31	By Discount Reserve . .	167	2	11
Dec. 31	„ Discount Reserve . .	190	19	10	„	„ Profit and Loss	190	19	10
		358	2	9			358	2	9

Dr. RESERVE FOR DISCOUNT ON DEBTORS. *Cr.*

19—					19—				
31	To Discounts allowed .	167	2	11	Jan. 1 Dec. 31	By Balance .	200	13	6
,,	,, Balance c/d .	224	10	5		,, Discounts allowed .	190	19	10
		391	13	4			391	13	4
					19— Jan. 1	By Balance b/d .	224	10	5

Dr. PROFIT AND LOSS ACCOUNT.

To Discounts Allowed				190	19	10

BALANCE SHEET

Assets.						
Sundry Debtors	4,726	15	9			
Less Bad Debts Reserve . . .	236	6	9			
	4,490	9	–			
Less Discount Reserve . . .	224	10	5			
				4,265	18	7

Example 2.—On 1st Jan. the Reserve for Discount on Creditors was £120 6s. 8d. The Discounts Received during the year amounted to £104 11s. 4d. The Creditors at 31st Dec. are £4,983 14s. 7d., and a new Reserve of 2½ % is required. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries relating to Discount.

First Method

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Discounts Received . .	104	11	4			
	To Profit and Loss A/c. .				104	11	4
	Transfer of balance.						
31	Reserve for Discount on Crs. .	4	5	2			
	To Profit and Loss A/c. .				4	5	2
	Additional amount required to raise Reserve from £120 6s. 8d. to £124 11s. 10d. (2½ % on £4,983 14s. 7d.)						

LEDGER

Dr. DISCOUNTS RECEIVED. *Cr.*

19—					19—				
Dec. 31	To Profit and Loss Account .	104	11	4	Jan. to Dec.	By Sundries . .	104	11	4

Dr. RESERVE FOR DISCOUNT ON CREDITORS. *Cr.*

19—					19—				
Jan. 1	To Balance . .	120	6	8	Dec. 31	By Balance c/d .	124	11	10
Dec. 31	,, Profit and Loss	4	5	2					
		124	11	10			124	11	10
19—									
Jan. 1	To Balance b/d .	124	11	10					

PROFIT AND LOSS ACCOUNT. *Cr.*

By Discounts Received . . .				104	11	4
,, Reserve for Discount on Crs. . .	124	11	10			
Less Old Reserve	120	6	8			
				4	5	2

BALANCE SHEET

Liabilities.						
Sundry Creditors	4,983	14	7			
Less Discount Reserve . . .	124	11	10			
				4,859	2	9

Alternative Method

JOURNAL.

		Dr.			*Cr.*		
19—							
Dec. 31	Discounts Received . .	104	11	4			
	To Reserve for Discount on Crs. . . .				104	11	4
	Transfer of balance.						
31	Reserve for Discount on Crs. .	108	16	6			
	To Discounts Received .				108	16	6
	Additional amount required to raise Reserve from £15 15s. 4d. to £124 11s. 10d. (as above)						
31	Discounts Received . .	108	16	6			
	To Profit and Loss A/c. .				108	16	6
	Transfer of balance.						

LEDGER

Dr. DISCOUNTS RECEIVED. *Cr.*

19—					19—				
Dec. 31	To Discount Reserve . .	104	11	4	Jan. to Dec. Dec. 31	By Sundries . .	104	11	4
,,	,, Profit and Loss	108	16	6		,, Discount Reserve . .	108	16	6
		213	7	10			213	7	10

Dr. RESERVE FOR DISCOUNT ON CREDITORS. *Cr.*

19—					19—				
Jan. 1	To Balance . .	120	6	8	Dec. 31	By Discounts Received . .	104	11	4
Dec. 31	,, Discounts Received . .	108	16	6	,,	,, Balance c/d .	124	11	10
		229	3	2			229	3	2
19—									
Jan. 1	To Balance b/d .	124	11	10					

PROFIT AND LOSS ACCOUNT. *Cr.*

By Discounts Received				108	16	6

BALANCE SHEET

Liabilities.						
Sundry Creditors	4,983	14	7			
Less Discount Reserve . . .	124	11	10			
				4,859	2	9

Supposing we had placed the Reserves in both examples in the Discount Account instead of in separate Reserve Accounts, as is sometimes done, the Discount Account would appear as under :—

Dr. DISCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance . .	120	6	8	Jan. 1	By Balance . .	200	13	6
Dec. 31	,, Sundries .	167	2	11	Dec. 31	,, Sundries . .	104	11	4
,,	,, Reserve on Drs. c/d . .	224	10	5	,,	,, Reserve on Crs. c/d . .	124	11	10
					,,	,, Profit and Loss Account .	82	3	4
		512	–	–			512	–	–
19—					19—				
Jan. 1	To Balance b/d .	124	11	10	Jan. 1	By Balance b/d .	224	10	5

This method, although shown for the purpose of information, is not recommended to the student, as it is rather complicated; and it is also very confusing to have *two* balances in *one* account. From the commercial point, also, it is better to be able to see at a glance the amount of the discount allowed and of that received.

Other Methods.—As with the Bad Debts Reserve so also with the Discount Reserve, some accountants favour the method of bringing down the Reserve in the Discount Account itself. The advantage claimed for it is that the total amount of Discount (including Reserve) for the Profit and Loss Account is shown in *one* sum, and this facilitates comparison of one year with another.

The following workings of the examples given will exemplify this practice :—

Example 1.—

Dr. DISCOUNTS ALLOWED. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan.–Dec.	To Sundries . . .	167	2	11	Jan. 1	By Balance b/f . .	200	13	6
Dec. 31	„ Reserve on Drs. 5% £4,490 9s. 0d. c/d	224	10	5	Dec. 31	„ Profit and Loss .	190	19	10
		391	13	4			391	13	4
					19— Jan. 1	By Balance b/d . .	224	10	5

Example 2.—

Dr. DISCOUNTS RECEIVED, *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance . . .	120	6	8	Jan.–Dec.	By Sundries . .	104	11	4
Dec. 31	„ Profit and Loss .	108	16	6	Dec. 31	„ Reserve on Crs. 2½% £4,983 14s. 7d. c/d	124	11	10
		229	3	2			229	3	2
19— Jan. 1	To Balance b/d . .	124	11	10					

QUESTIONS ON CHAPTER VII

1. Define "Bad Debts Reserve."
2. How is the amount of the Bad Debts Reserve arrived at? What objection is there to taking a percentage of the sales?
3. What is the object of making a Bad Debts Reserve?
4. Explain briefly the two methods of creating a Bad Debts Reserve, and also the objections raised against them.
5. Explain briefly the different methods of treating the Bad Debts Reserve and Bad Debts respectively.
6. Define the following :—"Reserve for Discount on Debtors," "Reserve for Discount on Creditors."
7. What is the object of making Discount Reserves?
8. State briefly some of the arguments *for* and *against* making Reserves for Discount.
9. What different methods are there of making the Discount Reserves?
10. How is the amount of the Discount Reserve ascertained?
11. Should a Discount Reserve be calculated on the full amount of the Debtors or not? Give reasons for your answer.

EXERCISE VII

1. The Bad Debts Reserve on 1st Jan. was £725 15s. 6d. The Bad Debts during the year amounted to £630 10s. 6d. The Sundry Debtors on 31st Dec. are £16,368 16s. 3d., and a new Reserve of 5 % is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries.

2. The Bad Debts Reserve on 1st Jan. was £575 13s. 9d. The Bad Debts during the year amounted to £727 14s. 2d. The Sundry Debtors at 31st Dec. are £13,626 15s. 8d., and a new Reserve of 5 % is required. Make the necessary Journal entries (both ways), and show also the Ledger, Profit and Loss Account, and Balance Sheet.

3. The Sundry Debtors at 31st Dec. are £10,972 17s. 4d. There was no old Bad Debts Reserve, but as the Bad Debts during the year amounted to £327 16s. 9d., it was decided to create a Reserve of 5 % for future bad debts. Make the necessary entries (both ways) in the Journal, Ledger, and Profit and Loss Account, and show also the Balance Sheet.

4. The Bad Debts Reserve on 1st Jan. was £268 16s. 7d. The Bad Debts during the year amounted to £62 15s. 10d. The Sundry Debtors at 31st Dec. are £3,826 13s. 6d., and a new Reserve of 5 % is required. Make (both ways) the necessary Journal entries, and show the Ledger Accounts, the Profit and Loss Account, and Balance Sheet.

5. The Bad Debts Reserve on 1st Jan. was £56 10s. 6d. The Sundry Debtors at 31st Dec. are £1,026 8s. 10d. There were no Bad Debts during the year, and so it is decided to abolish the Reserve. Make the necessary entries (both ways) in the Journal, and show the Ledger, Profit and Loss Account, and Balance Sheet.

6. The Bad Debts Reserve on 1st Jan. was £147 13s. 8d. The Bad Debts during the year amounted to £27 10s. 4d. The Sundry Debtors at 31st Dec. are £2,806 15s. 5d., and it is decided to make no further increase in the Reserve. Show the Journal entries (both ways), and the Ledger, Profit and Loss Account, and Balance Sheet.

7. The Sundry Debtors on 31st Dec. are £4,361 10s. 11d. A Bad Debts Reserve of 5 % is made, and a Discount Reserve of 5 % is required. The Discounts Allowed during the year amounted to £163 17s. 8d., and there was an old Discount Reserve of £175 15s. 6d. Make (both ways) the necessary entries relating to discount in the Journal, Ledger, Profit and Loss Account, and show the Balance Sheet.

8. The Sundry Debtors on 31st Dec. are £3,897 15s. 4d. A Bad Debts Reserve of 5 % is made, and a Discount Reserve of 5 % is required. The Discounts Allowed during the year amounted to £126 13s. 3d., and there was an old Discount Reserve of £106 16s. 2d. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

9. The Sundry Debtors at 31st Dec. are £2,965 2s. 10d. A Bad Debts Reserve of 5 % is made, and a Discount Reserve of 5 % is required. The Discounts Allowed during the year amounted to £56 9s. 9d., and there was an old Discount Reserve of £250 14s. 4d. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

10. On 1st Jan. the Reserve for Discount on Creditors was £120 10s. 6d. The Discounts Received during the year amounted to £110 16s. 6d. The Creditors on 31st Dec. are £4,947 17s. 5d., and a new Reserve of 2½ % is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

11. On 1st Jan. the Reserve for Discount on Creditors was £160 13s. 6d. The Discounts Received during the year amounted to £187 16s. 5d. The Creditors at 31st Dec. are £6,626 10s. 11d., and a new Reserve of 2½ % is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

12. On 1st Jan. the Reserve for Discount on Creditors was £157 9s. 9d. The Discounts Received during the year amounted to £57 12s. 2d. The Creditors at 31st Dec. are £5,340 18s. 10d., and a new Reserve of 2½ % is required. Show (both ways) the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to Discount.

13. Show the necessary Ledger entries to describe the following:—

(*a*) Jan. 1. Bad Debts Reserve of £860 standing on the books.

(*b*) Dec. 31. Total of Bad Debts Account, £1,000.

(*c*) „ „ Adjust the Reserve Account so that it may show a Reserve of 7½ % on the Book Debts, which are £15,000.

(*d*) Assuming that business has been continued for another twelve months, *i.e.*, up to 31st Dec., the Bad Debts are then £1,100. Adjust the Reserve, so that it may show a reserve of 7½ % on the amount of the Book Debts, which are then found to be £12,674.—(*National Union of Teachers.*)

REVISION EXERCISE VII

1. Explain the object of a Journal, and give a list of the books in daily use in the Counting House of a City Warehouseman.—(*London Chamber of Commerce.*)

2. Enter the following transaction in the subsidiary Books you would suppose to be in use in a well-appointed City House:—

1st July, Sold to Alfred Bunn, of Beverley, a Bale of Stuff Goods containing 20 pieces, each of 25 yards, at ninepence per yard; Discount 6 % Cash at one month prompt—and assume such to have been paid in due course.—(*London Chamber of Commerce.*)

3. What is a Balance Sheet? Explain the difference between that and an ordinary Statement of Affairs.—(*London Chamber of Commerce.*)

4. Prepare a form of Cash Book and Petty Cash book, and of Purchases and Sales Books, having special regard to strict record, whilst securing economy in clerical labour; and give a series of specimen entries in the two former.—(*London Chamber of Commerce.*)

5. Post the following items to their respective Accounts, and draw up a Capital Account, Profit and Loss Account, and Balance Sheet as at 31st Dec.

A Merchant's Books showed his position on 1st Jan. to be as follows:—

Cash at Bankers		£1,756	14 10
Bills Receivable in hand		3,250	– –
Wool and other Produce in hand	£45,200		
Less Advances received thereon	39,000		
		6,200	– –
Bills Payable falling due in the following year		7,500	– –
Consignments to Australia		10,000	– –
Bank of Australia, Amount due for Advances against Consignments		8,000	– –
Sundry Creditors, Amount due to them		3,500	– –

During the year following the Merchant had the following transactions:—

Goods Purchased for Export	£24,000	– –
Freight Paid thereon	2,760	– –
Insurance Paid	250	– –
Proceeds of Sale of Goods Exported as per Account Sales rendered by Agents	22,500	– –

Exported Goods remaining in hands of Agents at close of year	£5,700 – –
Bills Receivable received from Agents in respect of Exported Goods Sold	21,000 – –
Bills Payable accepted against Goods Purchased for Export	20,000 – –
Cash Paid for Goods Purchased for Export	1,500 – –
Bills Payable Paid at Maturity	24,000 – –
Bills Receivable Paid at Maturity during the year, and placed by Bankers to Credit of Banking Account	7,500 – –
Bills Receivable discounted during the year, £15,000 and proceeds, less £450 Discount paid into Banking Account	14,550 – –
Wool and other Produce Sold during the year, and Proceeds in Cash Paid into Banking Account	50,000 – –
Advances on ditto Repaid	39,000 – –
Interest Paid on such Advances	950 – –
Consignments to Australia realised, and net proceeds Received by Merchant in Cash, and Paid into Banking Account	9,350 – –
Advances against Consignments repaid to Bank of Australia with Interest thereon	8,400 – –
Offices Expenses, Salaries, and Rent paid	2,350 – –
Private Drawings of Merchant	1,500 – –

—(*Institute of Bankers.*)

6. On 1st March P. Pensley and R. Rubble draw on one another at three months for £250 for their mutual accommodation. They discount each other's bills at 4½ %, and, at maturity, each meets his own acceptance. Record the above transaction in the Ledgers of both parties.

7. The books of Messrs. William Jones & Co. were balanced as on Dec. 31st, and a Profit and Loss Account and Balance Sheet prepared. The profit for the year, as shown by these accounts, amounted to £2,481 6s. 4d. The following mistakes had been made by the book-keeper during the year:—

(*a*) A gas engine costing £450 had been debited to "Purchases Account" instead of to "Machinery and Plant Account."

(*b*) An amount of £15 12s. 8d., received as a final dividend in the estate of G. Smith, the balance of whose account had, in a previous year, been written off as a bad debt, was standing to the credit of a newly opened account under the same name, and was included amongst the "Sundry Creditors" in the Balance Sheet.

(*c*) A cheque amounting to £10 4s. 8d., which had been returned dishonoured, was posted to the debit of "Allowances Account" instead of to the account of B. Brown, from whom it was received.

(*d*) Goods amounting to £52 1s. 4d. had been returned by R. Robinson, on Dec. 30th, and were taken into stock, but the entries recording the return were not passed through the firm's books until Jan. 4th of next year.

What adjustments would be necessary to rectify these errors, and how would they affect the above-mentioned profit?—(*London Chamber of Commerce.*)

8. Wilkinson & Co., publishers, publish a book, of which 3,000 copies are printed. They pay all expenses, and give the writer a royalty of 1s. on every copy *sold*. The cost of the book, which was paid by Wilkinson & Co., and charged in their books to the accounts named, was as follows:—

Printing	£100
Paper	70
Binding	100
Advertising	30

At the end of the first year it was found that 100 copies had been given away, and 2,000 sold at a net price of 5s. each, and Wilkinson & Co. sent the author a detailed statement of accounts for the year, with cheque for the royalty due to him. Make the Journal entries that Wilkinson & Co. would make on drawing up this account, and show (1) What profit (*a*) the author, and (*b*) the publishers have made on the first year's sales; (2) What profit they would respectively make on the next year, assuming that the copies remaining in stock were all sold at the same price, and no further charges incurred.—(*Civil Service.*)

9.—The following balances were, on 31st December, extracted from the books of H. Francis, who carried on business as a manufacturing stationer:—

	£	s.	d.
H. Francis, Capital Account	10,000	–	–
Furniture and Fittings	342	1	7
Land and Buildings	2,171	13	1
Drawings	420	–	–
Cash at Bank	242	16	5
,, in hand	14	11	2
Sales	18,767	1	1
,, Returns	124	14	11
Carriage	345	1	7
General Expenses	241	2	2
Manufacturing Wages	3,124	17	2
Discounts allowed	263	12	–
,, received	199	7	9
Bank Charges, etc.	7	8	8
Loan from E. A. Francis	1,000	–	–
Office Salaries	427	12	–
Purchases	13,271	14	8
,, Returns	97	7	7
Stock (1st Jan.)	4,017	2	1
Plant and Machinery	1,442	12	1
Reserve for Bad and Doubtful Debts	310	7	6
Sundry Creditors	1,242	14	11
Manufacturing Charges	271	12	1
Rates and Taxes	242	–	1
Sundry Debtors	4,382	14	11
Bad Debts	92	12	2
Insurance	47	6	3
Bills Receivable	123	13	9

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and Balance Sheet as on that date, after taking into consideration the following:—

(1) 10% depreciation is to be written off Plant and Machinery.
(2) A new machine had been installed in November, at a cost of £250, but was not paid for; and no entries had been put through the books.
(3) 10% depreciation is to be written off Furniture and Fittings.
(4) Instructions were given to charge out the Stationery taken out of Stock during the year, for use in the business, at £47 8s. 2d., but this had not been recorded in the books.
(5) The Reserve for Bad and Doubtful Debts is to be made up to £500.
(6) The unexpired insurances amounted, on 31st December, to £12 4s. 2d.
(7) £12 was due on 31st December for interest on the loan from E. A. Francis, and had not been put through the books.

The Stock on 31st December was valued at £4,247 6s. 6d.; and on that date, Bills Receivable, not yet due, to the amount of £117 had been discounted. —(*London Chamber of Commerce.*)

CHAPTER VIII

CAPITAL AND REVENUE, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT, VOYAGE ACCOUNT

Importance of Distinction between Capital and Revenue.—The proper distinction between Capital and Revenue, as regards both receipts and expenditure, is one of the fundamental principles of correct accounting. It is very essential in all cases that this distinction should be rigidly observed, and amounts rightly allocated between Capital and Revenue. Failure or neglect to discriminate between the two will falsify the whole of the results of the book-keeping. For instance, Plant may be purchased, and charged to the Purchases Account; additions may be made to the premises, and debited to Repairs Account; some of the fixed assets may be sold, and the proceeds treated as a profit. In each case both the Profit and Loss Account and Balance Sheet would be inaccurate and misleading. These and similar mistakes are very easily made, and if undetected would soon render the book-keeping useless as a record of results.

The same difficulty presents itself to the student every time he is given a Trial Balance and requested to prepare therefrom a Trading and Profit and Loss Account and Balance Sheet. He must be able to discriminate between Capital items and Revenue items; that is, he must know which items go in the Profit and Loss Account, and which on the Balance Sheet.

Capital Expenditure comprises all expenditure incurred in acquiring assets for the purpose of earning income, or increasing the earning capacity of the business; for example, Land and Buildings or additions thereto, Patent or Mining Rights, Plant and Machinery or additions thereto.

Revenue Expenditure may be said to consist of expenditure incurred in Replacements, Repairs, Renewals, Depreciation of the fixed assets, and also the current expenses of carrying on the business, such as Rent, Rates and Taxes, Wages and Salaries, Carriage, Insurance, and other trade charges.

In the following examples a distinction has been drawn between Capital and Revenue items in order further to illustrate the subject:—

Installation of Electric Light and Telephone	Capital
Annual Charges for maintenance of same	Revenue
Purchase of New Plant	Capital
Annual Repairs to same	Revenue
Annual Depreciation of same	„
Purchase of Leasehold Premises	Capital
Annual Ground Rent of same	Revenue
„ Amount written off same	„

Annual Repairs to same	Revenue
Purchase of Patent Rights	Capital
Annual Renewal Fees for same	Revenue
Purchase of New Carts	Capital
New Wheels to Carts	Revenue
Sale of old Plant (depreciated value in books, £135) for £70, and purchase of New Plant £320 in place of it:—	
Loss on Sale of Old Plant, £65	Revenue
Cost of New Plant, £320	Capital

The above are only general rules, as it is quite impossible to draw a hard and fast line. Circumstances sometimes arise which make the question a very complicated one. **Repairs** are usually a revenue charge; but if we purchase second-hand plant, and pay for some immediate repairs necessary to make it efficient for our purpose, then such repairs become Capital expenditure, and must be added to the plant as part of its cost. **Wages** are a revenue item; but the wages paid to workmen to erect and fit some new machinery the firm has bought must be considered as an addition to the cost of the machinery. **Legal expenses** are a revenue charge; but the legal expenses for conveyancing when purchasing a works must be treated as part of the cost of the works. **Carriage** is usually a revenue item; but carriage paid on any plant and machinery we buy must be added on as part of its cost. **Interest on Capital** during the construction of works or buildings or plant is frequently authorised to be capitalised, *i.e.*, treated as part of the cost of same. **Parliamentary Expenses** incurred in the promotion of bills for the establishment of Railways, Gas Works, Electric Light Undertakings are also allowed to be capitalised.

Apportionment between Capital and Revenue.—With some items of expenditure it may be necessary to make an apportionment, *i.e.*, to charge so much to Capital, and to write off the balance. This is more particularly the case with alterations, improvements, and extensions of premises or plant. To capitalise the whole of the expenditure may not always be a prudent policy, as the value of the premises or plant may not be enhanced to anything like the amount of money spent thereon. Again, take the case of a tramway company which converts its system from horse traction to electric traction. A considerable loss is incurred in selling off the horses and old trams. Should this sum be capitalised, *i.e.*, treated as part of the cost of the new equipment? Opinions differ. Some accountants say it should, some say it should not. Speaking generally the safe policy to adopt seems to be *not* to capitalise *permanently* any expenditure which is not represented by assets, although legally, in the case in point, it may be done. Take the case of a manufacturer who suddenly finds it necessary to "scrap" his plant and machinery, and replace it with newer and better inventions. A considerable loss is incurred on the sale of the obsolete

plant. Is this part of the cost of the new equipment? Undoubtedly not. The proper way is to capitalise the amount *temporarily*, *i.e.*, to write it off to Revenue over a period of years, three to five, as the case may be.

Receipts.—Owing to the sources of receipts being comparatively few in number as compared with the expenses, there will not be the same difficulty. There is still, however, the risk of error. In some cases old assets are disposed of and the proceeds treated as a *profit*, whereas the difference between the book value and the proceeds of sale should be written off as a *loss*.

Capital Receipts comprise any additional capital paid in by partners, or, in the case of a joint stock company, any sums received from shareholders or debenture holders, any loans, the proceeds of sale of any of the assets.

Revenue Receipts, or Income, are the profits arising from the sales, discounts received, commission earned, interest on any investment, transfer fees, etc.

REVENUE ACCOUNT, RECEIPTS AND PAYMENTS ACCOUNT, INCOME AND EXPENDITURE ACCOUNT

Revenue Account.—This is another name for Profit and Loss Account, usually applied to large industrial concerns such as Railway and Shipping companies, Gas, Water, and Electric Light companies, etc.

Receipts and Payments Account.—This is simply a summary of the Cash transactions, as per the Cash Book, analysed or classified under suitable headings.

Receipts and Expenditure on Capital Account.—This is the statutory name for the Capital Account of companies which adopt the Double-Account System of presenting their Balance Sheet. On one side are placed the Capital Receipts from shareholders, stockholders and debenture holders, and on the other side the various items of Capital Expenditure.

Income and Expenditure Account.—This is merely another term for Profit and Loss Account. It is usually adopted by *non-trading* concerns such as clubs, societies, hospitals, and also by professional men and private individuals.

Difference between an Income and Expenditure Account and a Receipts and Payments Account.—The following points of difference should be carefully noted by the student. An Income and Expenditure Account deals with the *whole* of the income and expenditure for the year, whether actually received and paid, or not. All accruing income and all outstanding expenses that belong to the period covered by the account must be included before any balance is struck. A Receipts and Payments Account, on the other hand,

deals with only *part* of the income and expenditure for the year, namely, that part actually received and actually paid. Again, an Income and Expenditure Account contains income and expenditure of the current year only. A Receipts and Payments Account may contain the balance of cash in hand at the commencement and at the close of the year, and it will also contain all cash received and paid during the year. It may therefore comprise, not only income and expenditure for the *current* year, but also for the *previous* year, and even for the *succeeding* year. Further, the balance (if any) of a Receipts and Payments Account denotes merely the cash in hand; the balance of an Income and Expenditure Account represents the surplus for the year, or the deficit as the case may be.

Errors in Published Accounts.—It is not unusual to find some published "Income and Expenditure Accounts" showing the income on the debtor side and the expenditure on the creditor side, and containing the balance from the previous year; in some cases, they are even called "Balance Sheets." The nomenclature of such accounts is, of course, quite wrong and very misleading. They are nothing more or less than Receipts and Payments Accounts, and should be so headed. A proper Income and Expenditure Account shows the expenditure on the debtor side, and the income on the creditor side, and does *not* include any balance from the *previous* year, which would simply make it impossible to arrive at the true income or expenditure for the *current* year.

Example 1.—From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Welcome" Club for the year ended 31st Dec., 19—.

	£	s.	d.
Capital Account as per last Balance Sheet	1,875	17	3
Library Books	225	11	6
Furniture, Fixtures, and Fittings	476	12	10
Glass, Cutlery, China, House and Table Linen	286	14	9
Annual Subscriptions	675	15	6
Printing, Stationery, and Stamps bought	354	13	2
Hire of Hall (*Cr.* balance)	185	15	6
Cost of Entertainments	72	16	8
Billiard Room Receipts	216	2	10
Rent, Rates, and Taxes	124	13	9
Cash in hand	27	2	4
,, at Bank	227	8	10
,, on Deposit at 5%	500	–	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, during the year	99	18	8
Secretary's Honorarium	160	–	–
Sale of Tickets for Entertainments	145	15	6
Salaries of Staff	246	15	6
Entrance Fees	215	15	–
Sale of Tickets for Annual Dinner	79	10	6
Gas and Electric Light	66	18	6
Sundry Creditors	163	0	2

(*Continued on page 254.*)

THE WELCOME CLUB

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31ST DEC., 19—

Dr. *Cr.*

Expenditure.							*Income.*						
To Printing, Stationery, and Stamps	354	13	2				By Annual Subscriptions	675	15	6			
Less Stock c/f	46	4	4				Add Amount due	12	–	–			
				308	8	10		687	15	6			
„ Cost of Entertainments				72	16	8	*Less* paid in Advance	20	–	–			
„ Rent, Rates, & Taxes				124	13	9					667	15	6
„ Honorarium to Secretary				160	–	–	„ Hire of Hall				185	15	6
„ Gas and Electric Light				66	16	6	„ Billiard Room Receipts				216	2	10
„ Salaries of Staff	246	15	6				„ Profit from Sale of Wines and Spirits, Beer, Minerals, Cigars, etc.				99	18	8
„ „ „ due	17	10	11				„ Sale of Tickets for Annual Dinner				79	10	6
				264	6	5	„ Entrance Fees				215	15	–
„ Audit Fee				21	–	–	„ Sale of Tickets for Entertainments				145	15	6
„ Repairs, Cleaning, and Washing				118	3	4	„ Dividends on Consols less tax				14	2	6
„ Cost of Annual Dinner				67	11	5	„ Interest on Bank Deposit less tax				23	10	10
„ Newspapers and Magazines				58	5	9							
„ Depreciation—													
Library Books, 10%, £225 11s. 6d.	22	11	2										
Furniture, etc., 10%, £476 12s. 10d.	47	13	3										
Glass, Cutlery, etc., 10%, £286 14s. 9d.	28	13	6										
				98	17	11							
„ Balance (Surplus of Income over Expenditure for the year)				287	6	3							
				1,648	6	10					1,648	6	10

THE WELCOME CLUB

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.							*Assets.*						
Sundry Creditors				163	9	2	Cash in hand	27	2	4			
Subscriptions paid in advance				20	–	–	Cash at Bank	227	8	10			
Outstanding Expenses				17	10	11	Cash on Deposit	500	–	–	754	11	2
Capital A/c—							£600 Consols				450	10	8
Balance, 1st Jan.	1,875	17	3				Outstanding Subscriptions				12	–	–
Add Surplus for Year as per Income and Expenditure A/c	287	6	3				Library Books	225	11	6			
				2,163	3	6	*Less* Depreciation	22	11	2	203	–	4
							Furniture, Fixtures, etc.	476	12	10			
							Less Depreciation	47	13	3	428	19	7
							China, Glass, Cutlery, House and Table Linen	286	14	9			
							Less Depreciation	28	13	6	258	1	3
							Stock of Stationery				46	4	4
							Stock of Wine and Spirits, Beer, Minerals, Cigars, and Tobacco				210	16	3
				2,364	3	7					2,364	3	7

£600 Consols	£450	10	8
Dividend on Consols, *less* tax	14	2	6
Audit Fee	21	–	–
Interest on Bank Deposit	23	10	10
Repairs, Cleaning, and Washing	118	3	4
Cost of Annual Dinner	67	11	5
Newspapers and Magazines	58	5	9
Stock of Wines and Spirits, Beer, Minerals, Cigars and Tobacco, 31st Dec., 19..	210	16	3
Stock of Stationery, 31st Dec., 19..	46	4	4

Depreciate Library Books, Furniture, Glass, Cutlery, etc., 10 %. Of the Subscriptions £20 is paid in advance, and £12 is in arrear. £17 10s. 11d. is owing for Salaries of Staff.

Example 2.—Porters and Marshman are equal partners in a business under the title of the Land and Buildings Rental Company. From the following particulars prepare an Income and Expenditure Account and Balance Sheet for the year ended 31st March.

TRIAL BALANCE.—31ST MARCH.	*Dr.*			*Cr.*		
Repairs, Painting and Decorating	47	11	5			
Bank Interest				30	11	4
Capital A/c, Marshman (1st April)				8,000	–	–
,, ,, Porters (1st April)				8,000	–	–
Bank Charges	9	8	7			
S. Smeethe (half-year's Rent to 31st Jan.)	75	–	–			
Sundry Expenses	10	11	6			
Rentals A/c				3,673	15	8
Cash at Bank	2,448	3	9			
Drawings A/c, Marshman	500	–	–			
,, ,, Porters	500	–	–			
Income Tax	46	16	3			
Insurance	20	–	–			
Postages and Telegrams	14	1	5			
Settlet Co., Ltd. (half-year's Rent to 31st Dec. last)	120	–	–			
Interest on Mortgage	380	–	–			
Heating and Ventilating	55	16	6			
F. Foothe (half-year's Rent to 28th Feb.)	120	–	–			
Mortgage on Property at 4%				9,500	–	–
Salaries of Secretary and Staff	489	10	–			
Land and Buildings (1st April)	24,500	–	–			
Advertising	65	10	4			
Printing and Stationery	27	13	8			
Sundry Creditors				596	18	1
R. Ruffe (half-year's Rent due 31st Jan.)	200	–	–			
P. Platone (half-year's Rent due 31st Dec. last)	115	–	–			
Audit Fee	15	15	–			
Agent's Commission	40	6	8			
	29,801	5	1	29,801	5	1

LAND AND BUILDINGS RENTAL COMPANY

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDING 31ST MARCH.

Dr. *Cr.*

Expenditure.							*Income.*								
To Repairs, Painting, and Decorating	47	11	5				By Bank Interest						30	11	4
Ditto due	20	–	–				„ Rentals A/c	3,673	15	8					
				67	11	5	Ditto accrued—								
„ Sundry Expenses				10	11	6	S. Smeethe, 2 mos. at £150 p.a.	25	–	–					
„ Bank Charges				9	8	7	Settlet Co., Ltd., 3 mos. at £240 p.a.	60	–	–					
„ Income Tax				46	16	3	F. Foothe, 1 mo. at £240 p.a.	20	–	–					
„ Insurance				20	–	–	R. Ruffe, 2 mos. at £400 p.a.	66	13	4					
„ Postage and Telegrams				14	1	5	P. Platone, 3 mos. at £230 p.a.	57	10	–					
„ Interest on Mortgage				380	–	–	L. Leake, 1 mo. at £240 p.a.	20	–	–					
„ Heating & Ventilating				55	16	6	M. Meante, 1 mo. at £180 p.a.	15	–	–					
„ Salaries of Secretary and Staff				489	10	–	N. Norre, 1 mo., at £220 p.a.	18	6	8					
„ Advertising				65	10	4					3,956	5	8		
„ Printing and Stationery				27	13	8									
„ Audit Fee				15	15	–									
„ Agents' Commission				40	6	8									
„ Depreciation— Land and Buildings 1%, £24,500				245	–	–									
„ Interest on Capital— Porters 5%, £8,000	400	–	–												
Marshman 5%, £8,000	400	–	–	800	–	–									
„ Balance (Surplus for Year)—															
Porters ½	849	7	10												
Marshman ½	849	7	10	1,698	15	8									
				3,986	17	–					3,986	17	–		

LAND AND BUILDINGS RENTAL COMPANY

BALANCE SHEET AS AT 31ST MARCH, 19—

Liabilities.							*Assets.*						
Sundry Creditors				596	18	1	Cash at Bank				2,448	3	9
Reserve for Repairs				20	–	–	Sundry Debtors—						
Loan on Mortgage				9,500	–	–	S. Smeethe (£75 + £25)	100	–	–			
Capital Accounts—							Settlet Co., Ltd. (£120 + £60)	180	–	–			
Porters, 1st Jan.	8,000	–	–				F. Foothe (£120 + £20)	140	–	–			
Add Interest	400	–	–				R. Ruffe (£200 + £66 13s. 4d.)	266	13	4			
Add Share of Surplus	849	7	10				P. Platone (£115 + £57 10s.)	172	10	–			
	9,249	7	10				L. Leake	20	–	–			
Less Drawings	500	–	–				M. Meante	15	–	–			
				8,749	7	10	N. Norre	18	6	8			
Marshman, 1st Jan.	8,000	–	–								912	10	–
Add Interest	400	–	–				Land and Buildings	24,500	–	–			
Add Share of Surplus	849	7	10				Less Depreciation	245	–	–			
	9,249	7	10								24,255		–
Less Drawings	500	–	–										
				8,749	7	10							
				27,615	13	9					27,615	13	9

Three other tenants have paid Rent to 28th Feb., namely L. Leake, at £240 p. a.; M. Meante at £180 p. a.; N. Norre, at £220 p. a.

Depreciate Land and Buildings 1 %; charge Interest Capitals at 5 %; and reserve £20 for Repairs.

Special Items in Income and Expenditure Accounts.—Instructions are, as a rule, given in the exercises as to the treatment of special items. Extraordinary expenditure is generally spread over a period of years. Donations and Subscriptions are usually credited to Income, and Legacies to Capital. The rules of the association or institution may, however, provide that a certain portion of the Donations and Entrance Fees, or other sources of income, shall be capitalised. Legacies may, in certain cases, be for a definitely specified purpose, and will then require special accounts; while the income therefrom will also require to be separately treated. By way of illustration we append the answer to the second part of Exercise VIII (5), p. 262 :—

"CREEGHTEEN" ENDOWMENT FUND

Dr. RECEIPTS AND PAYMENTS ON CAPITAL ACCOUNT. *Cr.*

To Cash (Legacy from R. Bowntree, of "Creeghteen," to be invested in trust) . . .	8,000	–	–	By Investments— £3,000 Great Western Railway 4% Debentures . .	3,285	15	4
				£3,000 Lancashire and Yorks Railway 3% Preference Stock . . .	2,842	10	6
				£2,000 2½% Consols .	1,871	14	2
	8,000	–	–		8,000	–	–

"CREEGHTEEN" ENDOWMENT FUND

INCOME ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

To Grants made to "Creeghteen" cases . .	122	8	4	By Cash— Dividends on— G.W. Railway Debentures . .	113	–	–
„ Transfer to Income and Expenditure Account . .	122	8	4	L. & Y. Railway Pref. . . .	84	15	–
				Consols . . .	47	1	8
	244	16	8		244	16	8

Note.—The first statement is the usual Cash Statement printed and forwarded to patrons of, and subscribers to, such institutions. It is often incorrectly called a "Capital Account," whereas it is in reality only a Cash Account of the Capital moneys, showing what has been received and how it has been invested. If the books are

properly kept, the first statement would be represented in the Ledger by the following accounts :—

"CREEGHTEEN" ENDOWMENT FUND
CAPITAL ACCOUNT.

Dr.						Cr.			
					By Cash (Legacy from R. Bowntree, of Creeghteen, to be invested in trust) . .	8,000			

"CREEGHTEEN" ENDOWMENT FUND
INVESTMENT ACCOUNT.

Dr.						Cr.			
To Cash— £3,000 Great Western Rly. Debentures 4% . .	3,285	15	4						
£3,000 Lancashire and Yorks Rly. 3% Pref. Stock .	2,842	10	6						
£2,000 2½% Consols	1,871	14	2						
	8,000	–	–						

VOYAGE ACCOUNTS

Definition.—A Voyage Account is really a Revenue Account, or Profit and Loss Account, relating to the income earned, and the expenditure incurred, by a vessel during a particular voyage. Generally speaking, the voyages are numbered; and a separate account is kept of all expenses and charges pertaining to each voyage, and of the freight earned by each.

Property in British Ships.—The property in a British ship is, by an old law, divided into sixty-four equal parts or shares.

Example.—The ss. *Queenie* started on April 1st on a voyage from *A* to *I* and thence to London. Freights were earned as follows :—With timber to *B*, £2,946 10s. 8d., with coal to *C*, £8,655 9s. 8d., with sugar to *D*, £3,198 16s. 5d., with cotton to *E*, £2,783 13s. 10d. The *Queenie* reached London on 31st October. The port charges and disbursements, and sundry expenses were :—At *A*, £856 3s. 6d., at *B* outwards, £1,316 10s. 8d., at *C*, £516 14s. 4d., at *D*, £638 18s. 9d., at *C* return, £61 10s. 6d., at *E*, £10 15s. 7d., at *D* return, £1,108 17s. 3d., at *F*, £49 19s. 6d., at *G*, £469 3s. 11d., at *H*, £306 16s. 6d., at *I*, £56 11s. 4d., at London, £786 10s. 5d. The managers' commission amounted to £1,234 5s. 6d.

During the voyage the Wages amounted to £1,485 10s. 2d., and the Coal bill to £2,365 15s. 7d. The premiums for general insurance were at the rate of £2,520 per annum, and for leaving *H* late in the season an extra insurance of £372 10s. 5d., was charged. The

insurance on freights and other items was £326 19s. 3d. for the whole voyage.

A balance of £225 10s. 4d. profit was brought forward from the previous voyage, and a sum of £187 17s. 7d. (representing unused stores and provisions) is to be carried forward to the next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

VOYAGE ACCOUNT

Dr. FROM 1ST APRIL TO 31ST OCTOBER. *Cr.*

To Port Charges and Disbursements—				By Freights Earned—			
A	856	3	6	Timber to B	2,946	10	8
B outwards	1,316	10	8	Coal to C	8,655	9	8
C	516	14	4	Sugar to D	3,198	16	5
D	638	18	9	Cotton to E	2,783	13	10
C return	61	10	6	„ Stock of Unused Stores, Provisions, etc.	187	17	7
E	10	15	7				
D return	1,108	17	3				
F	49	19	6				
G	469	3	11				
H	306	16	6				
I	56	11	4				
London	786	10	5				
„ Wages	1,485	10	2				
„ Coal	2,365	15	7				
„ General Insurances, 7 months ($\frac{7}{12}$ of £2,520)	1,470	–	–				
„ Extra Insurance	372	10	5				
„ Insurance on Freights, etc.	326	19	3				
„ Managers' Commission	1,234	5	6				
„ Profit on Voyage c/d	4,338	15	–				
	17,772	8	2		17,772	8	2
To Dividend to Owners, £71 6s. 4d. per share	4,564	5	4	By Profit b/d	4,338	15	–
				„ Balance b/f	225	10	4
	4,564	5	4		4,564	5	4

QUESTIONS ON CHAPTER VIII

A

1. Why is the distinction between Capital and Revenue of great importance in book-keeping?
2. Define "Capital Expenditure." Give examples.
3. What is meant by "Revenue Expenditure"? Give examples.
4. Discriminate, in the following cases, between "capital" and "revenue" expenditure respectively:—
   - (*a*) Purchase of Leasehold Premises.
     Annual Depreciation of Lease of same.
     Annual Repairs to same.
     Annual Ground Rent of same.
   - (*b*) Installation of Heating and Ventilating Apparatus.
     Annual Charge for maintenance of same.
   - (*c*) Purchase of Additional Furniture.
     Annual Depreciation of same.
     Annual Repairs to same.
   - (*d*) Purchase of Patent Rights.
     Annual Depreciation of same.
     Annual Renewal Fees for same.

(*e*) Sale of old Machinery (depreciated value in books, £275) for £80, and purchase of new Machinery £1,050 in place of it.
(*f*) Purchase of Second-hand Pumps (additional).
Wages paid to own workmen to fix same.
Immediate Repairs to make same efficient.
Cost of immediate painting of same.

5. Give some examples of "revenue" expenditure becoming, under certain circumstances, "capital" expenditure.
6. Is it ever necessary to apportion one and the same lot of expenditure between both capital and revenue? Illustrate your answer by examples.
7. What is the safe rule to follow as regards "capital," in difficult questions of apportionment?
8. Is there any risk attaching to the non-discrimination between "capital" and "revenue" in the case of receipts?
9. Define "Capital Receipts." Give examples.
10. Explain what is meant by the term "Revenue Receipts." Give examples.

B

1. Define "Revenue Account."
2. What is a "Receipts and Payments Account"?
3. Explain the term "Receipts and Expenditure Account."
4. What do you understand by an "Income and Expenditure Account"?
5. Is there any difference between an Income and Expenditure Account and a Revenue Account? Give reasons for your answer.
6. How would you treat accruing income and expenditure in a Revenue Account?
7. How does a Receipts and Payments Account differ from an ordinary Cash Account?
8. How does a Receipts and Expenditure Account differ from a Profit and Loss Account?
9. Discriminate between a Receipts and Payments Account and an Income and Expenditure Account.
10. Explain a few of the common errors in some of the published accounts that purport to be "Balance Sheets" and "Income and Expenditure Accounts" respectively.
11. Can a balance from a previous year be, properly speaking, shown in an Income and Expenditure Account? Give reasons for your answer.

EXERCISE VIII

1. What is the chief difference between a "Receipts and Payments Account" and an "Income and Expenditure Account"? In what undertakings are these forms of accounts respectively made use of?—(*Royal Society of Arts.*)

2. Is there any difference between a Receipts and Payments Account and an Income and Expenditure Account?

The following particulars relate to the Chilworth Literary Society for the year ended 31st December: Subscriptions received, £110; Interest received on Investment, £38; net proceeds received from Lectures and Concerts, £232; Rent paid for use of Hall, £21; Petty Cash Payments, £10; Advertising paid, £21; Printing Expenses paid, £12 10s.

The Society holds ten 4% debentures of £100 each in the Universal Library, Ltd. As on 31st December, the Society owed £8 for Rent of Hall and £9 10s. for Printing.

Prepare the Society's Annual Statements of Account for the year ended 31st December.—(*London Chamber of Commerce.*)

3. From the following, prepare in correct style the Income and Expenditure Account of the Carlton Club for the year ended 31st December:—

Rent, Rates, and Taxes (not paid)	£50
Fuel and Gas	40
Caretakers' Wages	68
Printing and Stationery	30
Repairs	12
Salaries	100
Subscriptions due or accrued	200
Donations	50
Billiard Room	60
Refreshment Room	100
Sunday Hiring	20

[Balance to be shown.]

—(*National Union of Teachers.*)

4. From the following particulars, prepare Revenue Account and Balance Sheet of the "Green Lanes" Golf Club for the year ended 31st December. The Club's Articles of Association provide that half of each original member's subscription, and the entrance fees of other members are to be credited to Capital, and half of any surplus of Revenue is to be placed to a Reserve Fund.

Receipts for the Year.—Subscriptions from 140 original members @ £5 5s.; 220 Additional Members' Entrance Fees @ £1 1s., and Subscriptions @ £5 5s. Interest on Deposit, *less tax*, £10 3s. 4d. Sales of Provisions and Liquors, £637 18s. 2d. Half-year's Grazing Rent to 30th June @ £45 per annum. Loan, £900 @ 4%.

Payments for the Year.—Club Manager's Salary, £250. Greenkeeper's Wages, £150. Rent, £550. Interest on Loan, £36. Cost of Annual Dinner, £100. Sundry Expenses, £53 8s. 1d. Taxes and Insurance, £72 13s. 8d. Servants' Wages, £58 5s. Fuel, Lighting, and Cleaning, £53 10s. 11d. Liquors and Provisions purchased, £873 16s. 4d. Furniture purchased, £55 13s. 6d. Furnishings purchased, £25 10s. 2d. Repairs as per plumber's accounts, £5 2s. 7d. Repairs as per joiner's accounts, £7 3s. 4d. Printing and Stationery, £38 15s. 9d. J. Jones, builder (Club Premises Account), £275 15s. 4d. A. Brown, joiner (Club Premises Account), £520 10s. R. Roe, architect (Club Premises Account), £120. T. Tims, painter (Club Premises Account), £52 10s. 6d.

On 31st December the Cash in hand was £27 10s. 8d., the Cash at Bank, £95 5s. 8d.; the Cash on Deposit @ 4%, £270; the Stock of Provisions and Liquors, £286 14s. 9d.

Charge Depreciation on the total cost of Club Premises at 3 per cent., on Furniture at 2½ per cent., and on Furnishings at 15 per cent.

5. From the following particulars prepare Income and Expenditure Account of the "Bartimaeus" Home for the Blind, for the year ending 31st December. Show also the "Creeghteen" Endowment Fund Capital and Income Accounts.

Trial Balance Debits.—Servants' Wages, £286 4s. 2d. School Expenses, £157 13s. 8d. Coal, Gas, and Water, £274 8s. 9d. Clothing, £426 16s. 6d. Printing, Stationery, and Advertising, £106 12s. 4d. General Charges, £117 11s. 10d. Provisions, £1,046 5s. 7d. Repairs and Maintenance, £306 10s. 5d. Salaries of Head Officials, £1,072 4s. 6d. Legal and Accountancy Fees, £21 8s. 3d. Rates, Taxes, and Insurance, £156 3s. 9d. Grants to ex-pupils, £542 10s. 6d. Trading deficit on Workshops, £54 4s. 8d. New Drainage, £375 12s. 2d. "Creeghteen" Endowment Fund Investment Account, £8,000 (Nominal Value, £11,500). Cash in hand, £44 16s. 3d. Cash at Bank, £2,075 12s. 8d. Investments Account (total as per Schedule), £85,068 10s. 6d. Accrued Interest on Investments, £896 14s. 2d. Stocks

on hand, 31st December (Clothing, Provisions, Stationery, Baskets, Brushes, Mats, Upholstery, etc., as per separate Schedules), £753 5s. 11d. Trading Loss on Upholstering Department, £10 15s. 6d.

Trial Balance Credits.—Sundry Creditors, £515 11s. 7d. "Creeghteen" Endowment Fund Account, £8,000. Legacies received during year, £5,200. Capital Account (1st Jan.), £82,828 3s. 3d. Profits on Manufacturing and Trading Departments: Baskets, £58 15s. 3d.; Brushes, £29 10s. 2d.; Mats, £34 16s. 8d. Income from Investments, £3,050 10s. 10d. Education Dept. Grants, £356 12s. 6d. General Donations, £100. Subscriptions, £340 10s. 6d. Inmates' Payments, £752 14s. 4d. Proceeds of Concerts, £142 9s. 9d. Proceeds of Collections, £207 16s. 3d. Bank Interest, £54 2s. 8d. "Creeghteen" Endowment Income (£244 16s. 8d., *less* Grants to "Creeghteen" cases), £122 8s. 4d.

The "Creeghteen" Endowment Fund consists of a legacy of £8,000 from R. Bowntree, Esq., to be invested in trust. Half the income is to be applied to the relief of blind persons resident in "Creeghteen," and the other half to the general purposes of the Home. The Fund is represented by the following Investments: £3,000 Great Western Railway 4% Debentures, cost £3,285 15s. 4d.; £3,000 Lancashire and Yorks Railway 3% Preference Stock, cost £2,842 10s. 6d.; £2,000 Consols 2½%, cost £1,871 14s. 2d.

The expenditure on New Drainage is to be spread over three years.

6. The ss. *Queenie* made eight voyages with the following results:—

No. 1. Profit, £1,763 10s. 8d.;	No. 2. Profit, £1,942 16s. 7d.;
No. 3. Profit, £2,146 3s. 10d.;	No. 4. Profit, £3,730 14s. 4d.;
No. 5. Loss, £986 11s. 10d.;	No. 6. Profit, £5,018 18s. 8d.;
No. 7. Profit, £2,345 6s. 7d.;	No. 8. Loss, £554 5s. 6d.

Make up the ship's Net Revenue Account, and state what dividend the owners will receive.

7. Duckle & Drake are equal partners in a business under the style of The Land and Buildings Lettings Co. From the following particulars prepare Revenue Account, Net Revenue Account, and Balance Sheet for the year ended 31st March.

TRIAL BALANCE, 31ST MARCH, 19...

Debits.—Agents' Commission, £80 13s. 4d. Repairs, Painting, and Decorating, £95 2s. 10d. Audit Fee, £31 10s. Bank Charges, £18 17s. 2d. P. Pucke (half-year's Rent to 31st Dec. last), £230. S. Steavens (half-year's Rent to 31st Jan.), £150. R. Reeke (half-year's Rent due 31st Jan.), £400. Sundry Expenses, £21 3s. Printing and Stationery, £55 7s. 4d. Cash at Bank, £4,896 7s. 6d. Advertising, £131 0s. 8d. Drawings Account, Duckle, £1,000. Drawings Account, Drake, £1,000. Land and Buildings (1st April), £49,000. Income Tax, £93 12s. 6d. Salaries of Secretary and Staff, £979 Insurance, £40. F. Feeckle (half-year's Rent to 28th Feb.), £240. Postages and Telegrams, £28 2s. 10d. Heating and Ventilating, £111 13s. Steelton Co., Ltd. (half-year's Rent to 31st Dec. last), £240. Interest on Mortgage, £760.

Credits.—Sundry Creditors, £1,193 16s. 2d. Bank Interest, £61 2s. 8d. Loan on Mortgage at 4%, £19,000. Capital Account, Duckle (1st Apr.), £16,000. Capital Account, Drake (1st April), £16,000. Rentals Account, £7,347 11s. 4d.

Depreciate Land and Buildings 1%. Charge Interest on Capitals at 5%. Reserve £40 for Repairs.

Three other tenants have paid Rent to 28th February, namely, L. Loomthe at £480 per annum, M. Moone at £360 per annum, and N. Nette at £440 per annum.

8. From the following particulars, prepare Income and Expenditure Account and Balance Sheet of the "Kreek Ffynche" Nursing Home for the year ended 31st December.

Cash on Current Account, £362 4s. 8d. Cash on Deposit Account, £350. Fees paid by Patients, £1,056 16s. 10d. Salaries of Nurses and Superintendents, £362 8s. 5d. Premises, £4,250 12s. 6d. Furniture and Fixtures, £827 13s. 4d. Creditors, £150. Wages, £124 14s. 3d. Provisions, £383 7s. 10d. Salaries of Secretary and Treasurer, £300. Donations and Subscriptions, £826 2s. 8d. Medicines and Surgical Appliances, £106 10s. 5d. Investments, £1,756 12s. 2d. Interest on Deposit *less tax*, £13 3s. 8d. Taxes and Insurance, £86 16s. 6d. L. Loop for endowment of "Loop" bed, *Cr.* £850. Repairs, £238 3s. 10d. Collectors' Commission, £36 11s. 9d. Printing and Stationery, £120 6s. 8d. Capital Account (1st Jan.), £6,480 16s. 6d. Sundry Expenses, £18 15s. 5d. Dividends on Investments *less tax*, £62 1s. 9d. Fuel, Lighting, and Cleaning, £108 18s. 8d. Auditors' Fees, £5 5s.

Depreciate Premises 2½% and Furniture 5%. The Stock of Provisions at 31st December was £37 13s. 4d.

9. From the following Trial Balance of *"Ye Olde Swelle" Club* prepare Income and Expenditure Account and Balance Sheet for the year ending 30th September.

TRIAL BALANCE.—30TH SEPT.	*Dr.*			*Cr.*		
Annual Subscriptions				1,351	11	–
Entrance Fees				431	10	–
Sale of Tickets for Entertainments				291	11	–
Dividends on Consols *less tax*				28	5	–
Printing, Stationery, and Stamps	709	6	4			
Honorarium to Secretary	320	–	–			
Repairs, Cleaning, and Washing	236	6	8			
Cost of Entertainments	145	13	4			
Sale of Tickets for Annual Dinner				159	1	–
Newspapers and Magazines	116	11	6			
Hire of Hall				371	11	–
Profit on Sale of Wines and Spirits, Beer, Minerals, Cigars and Tobacco				199	17	4
Rent, Rates, and Taxes	249	7	6			
Salaries of Staff	493	11	–			
Interest on Bank Deposit *less tax*				47	1	8
Cost of Annual Dinner	135	2	10			
Gas and Electric Light	133	13	–			
Receipts from Billiard Rooms				432	5	8
Auditor's fee	42	–	–			
Cash in hand	54	4	8			
Cash at Bank	454	17	8			
Cash on Deposit at 5%	1,000	–	–			
Sundry Creditors				326	18	4
£1,200 Consols	901	1	4			
Capital A/c, 1st Oct.				3,751	14	6
Library Books	451	3	–			
Furniture, Fixtures, and Fittings	953	5	8			
Glass, Cutlery, China, House, and Table Linen	573	9	6			
Stock of Wines and Spirits, Beer, Minerals, Cigars, and Tobacco, 30th Sept.	421	12	6			
	7,391	6	6	7,391	6	6

Of the Subscriptions, £40 is paid in advance; there is also £24 in arrear. Depreciate Library Books, Furniture, Glass, Cutlery, etc., at 10%. Stock of Stationery, 30th September, £92 8s. 8d.; £35 1s. 10d. has accrued for Salaries of staff.

10. From the following particulars draw up the Voyage Account of the ss. *Petrelle*. The voyage was from *K* to *L*, thence to *M*, *N*, *O*, and back to Liverpool.

The port expenses were as follows:—

At *K*: Port Charges and Disbursements, £752 10s. 11d. Cash to Captain, £42. Advances to Crew, £68 13s. 4d.

At *L*: Port Charges and Disbursements, £1,275 15s. 6d. Funeral Expenses and Hospital Fees of Crew, £47 2s. 5d. General Average Charges, £896 3s. 8d. Tobacco, £7 2s. 6d.

At *M*: Cash to Captain, £110 2s. 7d. Port Charges and Disbursements, £375 19s. 9d. Claims on Cargo, £92 1s. 10d. Advances to Crew, £45.

At *N*: Port Charges and Disbursements, £37 15s. 4d. Cash to Captain, £25 14s. 4d. Sundry Stores, £11 3s. 9d.

At *O*: Port Charges and Disbursements, £298 18s. 8d. Advances to Crew, £25. Tobacco, £3 11s. 7d.

Freights Earned: *K* to *L*, £4,128 17s. 3d.; *L* to *M*, £2,063 10s. 5d.; *M* to *N*, £3,856 11s. 2d.; *N* to *O*, £3,198 10s. 10d.

Shipping Fees Received, £7 2s. 6d. Sale of Old Stores, £25 2s. 9d. Outfit and Provisions, £795 15s. 5d. Wages, £1,946 6s. 8d. Forfeited Wages, £78 10s. 4d.

Insurance Premiums: On Freight and Disbursements, £1,956 12s. 2d. On Protection, Indemnity, and Club Calls, £156 13s. 9d. Extra Insurance at *N*, £15 15s.

Commission: To Charterers, £786 17s. 3d. To Management, 2% on gross freight. Brokerage, £72 5s. 6d.

11. From the following particulars prepare Income and Expenditure Account and Balance Sheet of the "Sleethorpe" Progressive Club for the year ended 31st December.

Trial Balance Debits.—Printing, Stationery, and Newspapers, £127 13s. 8d. Repairs, £175 10s. 2d. Wines, Spirits, and Cigars, £356 4s. 7d. Alterations and Improvements to Premises, £950 15s. 3d. Cash in hand, £10 14s. 6d. Cash at Bank, £575 10s. 8d. Salary of Secretary, £120. Sundry Debtors, £46 2s. 5d. Stock of Wines, Spirits, and Cigars (1st Jan.), £75 16s. 4d. Servants' Wages, £372 13s. 6d. Rent, £250. Rates and Taxes, £78 10s. 6d. Fuel, Lighting, Cleaning, and Washing, £257 13s. 7d. Furniture and Fixtures, £475 15s. 8d. Legal Expenses, £6 6s. Expenses of Conversazione, £20 10s. 10d.

Trial Balance Credits.—Subscriptions, £987 15s. 6d. Creditors, £475 3s. 4d. Bar and Billiard and Card Room Receipts, £356 10s. 2d. Sale of Wines, Spirits, and Cigars, £572 13s. 3d. Capital Account (1st Jan.), £1,257 15s. 5d. Special Levy on Members, £250.

Depreciate Furniture and Fixtures 10%, and write £120 off Alterations and Improvements to Premises. Stock of Wines, Spirits, and Cigars on 31st December, £72 10s. 5d.

12. The ss. *Kathleen* started on 1st February on a voyage from *K* to *S*, and thence to Cardiff. Freights were earned as follows: On coal to *L*, £5,893 1s. 4d.; on timber to *M*, £17,310 19s. 4d.; on cotton to *N*,

£6,397 12s. 10d.; on sugar to *O*, £5,567 7s. 8d. The *Kathleen* reached Cardiff on 31st August. The Port Charges and Disbursements, Sundry Stores, Expenses, etc., were: At *K*, £1,712 7s.; at *L*, outwards, £2,633 1s. 4d.; at *M*, £1,033 8s. 8d.; at *N*, £1,267 17s. 6d.; at *M*, return, £123 0s. 2d.; at *O*, £21 11s. 2d.; at *N*, return, £2,207 14s. 6d.; at *P*, £99 19s.; at *Q*, £938 7s. 10d.; at *R*, £613 13s.; at *S*, £113 2s. 8d.; at Cardiff, £1,573 0s. 10d. The Manager's Commission amounted to £2,468 11s.

During the voyage the Wages amounted to £2,971 0s. 4d., and the Coal bill to £4,731 11s. 2d. The premiums for general insurance were at the rate of £5,040 per annum, and for leaving *R* late in the season an extra insurance of £745 0s. 10d. was charged. The insurance on freights and other items was £653 18s. 6d. for the whole voyage.

A balance of £450 19s. 10d. profit was brought forward from the previous voyage, and a sum of £375 15s. 2d. (representing unused stores and provisions) is to be carried forward to next voyage.

Make up the Voyage Account, and show the amount of dividend received by the owners.

13. The following is the published account of a provincial Charitable School:—

BALANCE SHEET

FOR THE YEAR ENDING 31ST DECEMBER, 19—

To Government Grants—				By Alterations and Repairs	76	2	3
Ordinary £2,060 10 6				„ Salaries and Wages	754	13	5
Special 120 3 6				„ Washing and Cleaning	287	9	9
	2,180	14	0	„ Fuel, Lighting, and Heating	126	16	6
„ Councils' Grants—				„ Furniture	296	10	2
Ordinary £1,026 10 6				„ Clothing	317	17	7
Outfits 55 16 8				„ Printing and Stationery	88	18	5
	1,082	7	2	„ Outfits	76	16	6
„ Subscriptions	126	10	6	„ Rates, Taxes, and Insurance	85	13	3
„ Interest	19	10	8	„ Boys' Rewards	20	10	6
„ Receipts from Band	72	10	11	„ Medical Expenses	43	7	5
„ Sundry Profits	126	16	9	„ Band Expenses	175	11	10
„ Profits of Farm	98	10	2	„ Loss on Workshops	26	9	9
„ Profits of Gardens	29	12	5	„ Travelling Expenses	63	17	2
„ Balance (Loss for year)	260	10	3	„ Cost of Entertainments	36	15	9
„ Rents of Land	156	10	6	„ Provisions	1,027	3	3
				„ Postages	36	12	8
					3,541	6	2
				Special Expenditure—			
				New Drainage 475 15 8			
				Improvements to Premises 136 11 6			
					612	7	2
	4,153	13	4		4,153	13	4

What criticism have you to offer on the above?

14. From the following particulars of the "Lumley" Aviation Club prepare Revenue Account for the year ended 31st December.

Receipts for the Year.—Subscriptions, £1,272 10s. 6d. Interest on Investments, £44 2s 3d. Proceeds of Sale of Journal £175 15s. 4d.

Expenditure for the Year.—Salaries £327 10s. 6d. Deputation Expenses, £40. Annual Dinner and Entertainment, £72 13s. 11d. Journal Expenses,

£146 8s. 5d. Postages, £15. General Expenses, £10 14s. 4d. Printing and Stationery, £37 2s. 9d. Year Book Expenses, £136 7s. 7d. Rent, Rates, and Taxes, £346 12s. 6d. Fuel, Lighting, and Cleaning, £56 6s. 2d. Lecture Expenses, £75. Legal Expenses, £7 12s. 6d. Auditors' Fees, £10 10s.

15. The "Glenisla" Steamship Co., Ltd., owns one "tramp steamer," the ss. *Glenisla*, 2,211 tons gross register, which was chartered on 27th February as follows:—

Cardiff to Genoa with Coal at 8s. 9d. per ton.

NOTE.—The charter stipulates for an address commission to the charterers of 2 per cent. on the freight, payable on signing Bill of Lading, together with a brokerage of 5 per cent. to the charterers' agents, of which one-third is repayable to the vessel.

Agua Amarga (Spain) to Barrow with Ore at 8s. 3d. per ton.

NOTE.—Address commission of 2½ per cent. on freight payable to charterers, and a brokerage of one-third of 5 per cent. payable to charterers' agents on signing charter.

The vessel was insured at Lloyd's on the previous 29th April, the inclusive premium for one year being £1,952 10s. 8d., and the managing owners' remuneration was fixed by the Articles of Association at 2s. 6d. per gross register ton per annum.

The voyage commenced on 9th March, and the following are the particulars from which the accounts are to be made up:—

	£	s.	d.
Freight on 3,190 tons Coal to Genoa, and freight on 3,660 tons Ore to Barrow:—			
Stores Accounts	162	8	1
Port Charges, Trimming, etc., Cardiff	121	2	3
Captain's Accounts for Harbour Wages, etc., Cardiff	64	7	6
Bunker Coals, as per Engineer's Receipt—279 tons at 9s.; 154 tons at 8s. 11½d.			
Discharging at Genoa	93	15	3
Agents' Disbursements, Genoa, deducted from freight remitted (exch. 27.22), lire 3012.80.			
Captain's Expenses, Genoa	7	19	–
Stevedore at Agua Amarga, loading 3,660 tons Ore.	152	10	–
Dispatch Money	213	13	4
Interest on Advance	10	19	9
Captain's Expenses	5	15	9
Agents' Accounts for Port Charges, Agency, etc., exclusive of address Commission and Brokerage (exch. 26.75), pesetas 2,964.88.			
Bunker Coals at Portland, 20 tons at 18s. 6d., and Port Charges, £3 2s.			
Port Charges, Discharging and Dispatch Money at Barrow	423	7	6
Captain's Portage Bill	168	6	8
Overlookers' Expenses	4	5	–

The voyage terminated on 28th April.

Prepare the Voyage Account, showing the net profit or loss.—(*Chartered Accountants.*)

16. From the following Trial Balance of the "Linkley" Steam Navigation Co. prepare Revenue Account, Net Revenue Account for the half year ended 31st May, and Balance Sheet as on that date.

TRIAL BALANCE.—31st May, 19—

	Dr.			Cr.		
Bills Receivable	658	10	2			
Brokerage and Commission	1,073	5	5			
Trade Creditors				4,320	17	7
Victualling	3,517	18	9			
Coals (Bunkers)	10,718	15	4			
Damages, Repairs, and Renewals	8,075	13	6			
Underwriting A/c				2,500	–	–
Wages	7,569	11	10			
Port Charges and Disbursements	4,329	7	3			
Directors' Fees	625	15	6			
Interest on Mortgage	140	–	–			
Mortgages @ 4%				7,000	–	–
Sundry Debtors	7,508	18	9			
Steamers	195,208	10	6			
Freight A/c				75,616	14	4
Office Rents, Rates, and Taxes	557	13	9			
Accountancy Fees	120	10	6			
Loading and Discharging Expenses	4,566	4	8			
Sundry Stores	1,015	17	5			
Bills Payable				2,465	18	9
Printing, Stationery, and Postages	785	3	10			
Engineers' Charges	1,019	4	7			
Proprietors' Capital				150,000	–	–
A. & M. Bank, Ltd.				2,516	14	8
Commission to Agents	75	13	9			
Reserve for Freight on Uncompleted Voyages as at 31st May				3,146	10	2
	247,566	15	6	247,566	15	6

Five per cent. of the profit is to be carried to the Underwriting Account, after which the Managers are entitled to 5% Commission. The Steamers are valued at £190,000 on 31st May.

17. From the following particulars make up a Receipts and Payments Account for the year ending 31st December:—

	£	s.	d.
Cash in hand and at bank 1st January	274	13	3
Subscriptions for the year	45	10	6
Purchases of Furniture during the year	25	15	6
Stationery and Printing during year	14	13	2
Postages and Petty Expenses during year	10	9	8
Receipts from sale of Tickets for Annual Dinner	66	10	6
Expenses of Annual Dinner and Entertainment	47	2	10
Grants made for benevolent purposes	15	15	–
Engraving Coat of Arms	3	3	–
Interest on Bank Deposits	3	10	5

REVISION EXERCISE VIII

1. If, on comparing your Bank Cash Book Balance with your Bank Pass Book Balance, you found that the two did not agree, what steps would you

take to check the correctness or otherwise of your Bank Cash Book, and what would be the principal differences you would expect to find ?—(*Royal Society of Arts.*)

2. What is a "Suspense Account ?" Give a few examples: (*a*) of legitimate purposes for which such an Account may be used; (*b*) of errors which the abuse of a Suspense Account may cover.—(*London Chamber of Commerce.*)

3. State the advantages or disadvantages of Loose-Leaf Ledgers.—(*Lancashire and Cheshire Union.*)

4. Jackson & Co., of Middlesbrough, sell to Williamson & Co., of Sheffield, 25 tons Hematite Iron at 49s. 4d. cash in a month; Invoice was sent in due course, but at the end of the time allowed for payment, Williamson & Co. asked Jackson & Co. to draw on them at three months for the amount of Invoice, adding 1 per cent. for commission, with 5 per cent. for discount on the bill; this was agreed to—the bill was drawn and accepted, and duly met at maturity. Prepare the necessary Day Book, Journal, Cash Book, and Ledger Entries as you would expect to find them in Jackson & Co.'s books.—(*London Chamber of Commerce.*)

5. Arthur Holt keeps his "Sales Ledger" on the "self-balancing" principle. From the following particulars prepare the necessary "Adjustment Account" as at 31st March:—

		£	s.	d.
Mar. 1.	Debtor's balances at this date . . .	6,271	–	–
31.	Acceptances dishonoured by customers during the month.	271	–	–
,,	Cash received from customers for month .	7,810	10	–
,,	Goods returned by customers for month .	471	–	–
,,	,, sold to customers for month . .	10,829	–	–
,,	Customers' acceptances during month . .	1,735	10	–
,,	Discount allowed to customers for month .	484	–	–

6. How would you deal with Consignments (*a*) In the books of the consignor ? (*b*) In the books of the consignee ?—(*Lancashire and Cheshire Union.*)

7. A merchant has bought goods due as under:—

£660 due 91 days previous to 18th July.
£375 ,, 55 ,, ,, ,,
£600 ,, 18 ,, ,, ,,
£1,050 ,, on 18th July.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it ?

8. On 1st April, S. Sund accepts a three months' bill for £150 drawn on him by M. Moon for their mutual convenience. The bill is then discounted by Moon at 3¼ per cent., and half the proceeds handed to Sund. At maturity Moon sends a cheque to Sund, who then pays the bill. Show the Ledger accounts in the books of both parties.

9. On 1st January, A. Stevenson bought goods value £1,100 and consigned them to L. Lanng as a joint speculation, profits being divisible equally. On the same date he paid Carriage and Freight, £70; Insurance, etc., £25 4s.; and drew on Lanng at two months for £600 on account, discounting the bill on 4th January for £597 10s. On receipt of the goods on 1st February Lanng paid Dock Dues and Cartage, £30; and Government Duty, Insurance, etc., £40. On 31st May, Stevenson received an Account Sales showing that on 30th April the goods had realised gross £1,640, and that Lanngs' disbursements made on the same date were: Storage, £30; Sundries, Brokerage, and Expenses of Sale, £100. Lanng also enclosed a sight draft for amount due at 31st May. Prepare a general statement showing the result of the venture, and write up the accounts in Stevenson's and Lanng's ledgers respectively. Interest is to be brought into account at the rate of 5 per cent. per annum.

10. J. Skinner and H. Fuller are in partnership as wholesale grocers. The balances of their Capital Accounts were equal as on 31st December. In addition to the balances of the Capital Accounts, the following balances appeared in the books:—

	£	s.	d.
J. Skinner (Drawings Account)	971	10	–
H. Fuller (Drawings Account)	842	12	6
Office Salaries	979	7	6
General Expenses	174	19	7
Factory and Warehouse Wages	2,356	17	4
Rates, Taxes, and Insurance	470	4	10
Repairs and Renewals	142	3	–
Manufacturing Expenses	371	12	4
Legal Expenses and Audit Fee	67	2	–
Travellers' Expenses and Commission	547	–	7
Advertising	12,127	4	2
Discount Account (Debit Balance)	124	18	1
Sundry Debtors	7,982	13	4
,, Creditors	3,641	12	2
Purchases	10,724	12	5
Sales	28,990	15	–
Rents received	76	–	–
Carriage Inwards	374	3	3
,, Outwards	537	4	7
Plant, Machinery, and Fixtures	1,489	6	8
Freehold Land and Buildings	6,237	16	
Stock in hand (1st Jan.)	7,047	11	4
Postage and Stationery	243	14	1
Bad Debts written off	141	9	4
Purchases Returns	351	4	6
Sales Returns	1,240	5	–
Cash at Bank	1,110	19	–
,, in hand	112	12	7

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, it is necessary to take the following matters into consideration:—

(*a*) 10 per cent. Depreciation is to be written off Plant, Machinery, and Fixtures.

(*b*) J. Skinner withdrew Capital to the extent of £1,000 on 30th June.

(*c*) Reserve for Bad and Doubtful Debts, amounting to 2½ per cent. on the Debtors, is to be created.

(*d*) Interest on Capital (but not on Drawings) is to be charged at the rate of 5 per cent. per annum.

(*e*) Carry forward Insurance unexpired and Rates paid in advance (£18 8s. 2d. and £24 7s. 6d. respectively).

(*f*) The amount to be charged against the Profit and Loss Account for

advertising is to be reckoned as 20 per cent. on the net sales; the balance of the Advertising Account is to be carried forward.

(*g*) The partnership agreement provides that losses are to be borne equally by the Partners, but that profits are to be divided as follows:—

$\frac{2}{5}$ths to J. Skinner.
$\frac{2}{5}$ths to H. Fuller.
$\frac{1}{5}$th to be set aside for division amongst employees.

(*h*) The Stock in hand on 31st December was valued and agreed at £6,954 12s. 2d.—(*London Chamber of Commerce.*)

CHAPTER IX

DEPARTMENTAL ACCOUNTS

Definition.—Departmental Accounts are accounts relating to the several departments, or divisions, of a business, it being desired to ascertain the trading results of each department, or class of goods, separately.

Analytical Purchases and Sales Books.—To attain the above-mentioned end it is necessary to keep analytical Purchases and Sales Books. The following are specimens :—

DEPARTMENTAL PURCHASES BOOK

Date.	Name.	Led. Fol.	Total.	Dept. 1.	Dept. 2.	Dept. 3.	Dept. 4.

DEPARTMENTAL SALES BOOK

Date.	Name.	Led. Fol.	Total.	Drapery.	Hosiery.	Outfitting.	Boots.

The headings of the columns vary; sometimes the departments are lettered, *e.g.*, "A," "B," "C," etc., sometimes numbered, sometimes named, as in the two examples. Whenever analysis is resorted to, there must always be a "Total" column. The object of this is to afford a check upon the arithmetical accuracy

of the tabular columns. By means of cross casting we are enabled to see whether the total of the analysis columns is equal to the sum of the "total" column. This will also prove whether any item has been omitted in the analysis. Similar rulings will be required for the Purchases Returns Book and the Sales Returns Book.

Procedure in Ledger.—Where a Departmental Trading Account is not desired, the Ledger Account of each department will be in simple form, thus :

Dr. "A" DEPARTMENT. *Cr.*

To Stock				By Sales						
,, Purchases				,, Returns						
,, Carriage				,, Stock		c/d				
,, Returns										
,, Wages										
,, P. & L. (gross profit)										
To Balance	b/d									

But where a Departmental Trading Account is required, the Ledger Accounts will be more elaborate. It will be necessary to open separate Stock, Purchases, Sales, Returns, and Wages Accounts for each department or class or goods. The following are examples :—

Dr. STOCK ACCOUNT—COFFEE. *Cr.*

Dr. PURCHASES ACCOUNT—COFFEE. *Cr.*

Dr. PURCHASES RETURNS ACCOUNT—COFFEE. *Cr.*

Dr.	SALES ACCOUNT—COFFEE.	*Cr.*

Dr.	WAGES ACCOUNT—COFFEE.	*Cr.*

Dr.	TRADING ACCOUNT—COFFEE.	*Cr.*

Sometimes the departmental principle is adopted even in the Ledger Accounts themselves, thus :—

Dr.					STOCK.					*Cr.*
Date.	Particulars.	Dept. A.	Dept. B.	Total.	Date.	Particulars.	Dept. A.	Dept. B.	Total.	

This form would not be applicable where many departments were kept separately, as it would necessitate a Ledger of a very inconvenient size.

Advantages of Departmental Accounts.—By means of departmental accounts it becomes possible, at balancing time, to ascertain the *gross* profit of each department or class of goods. Some businesses are content with this. Others go further and analyse all the expenses as well, in order to arrive at the *net* profit of each department or class of goods. The business, taken as a whole, might be yielding a satisfactory net profit, and yet one particular department might be running at a loss. Only departmental Profit and Loss Accounts will reveal this fact. Further, the results of different years may be collected and compared, and much valuable information gained therefrom. Such decided advantages, therefore, fully compensate for the extra trouble involved in analysing the transactions, and in keeping additional Ledger Accounts.

Inter-Departmental Transactions.—Purchases from, and Sales to, other departments must be carefully recorded. They are sometimes added to the respective Purchases and Sales Accounts, and sometimes dealt with in separate accounts. Much depends on the price at which such transfers are charged, whether at cost, or at cost plus a small departmental profit. When such transfers of goods are made at cost, they should certainly not be credited as Sales by the issuing department. It is better to credit them to a separate account entitled "Goods issued to Other Departments." At balancing time, these transfers must be debited to the Trading Account of the receiving department, and credited to the Trading Account of issuing department; that is, if they have not already been merged in the departmental Purchases and Sales Accounts.

Allocation of Indirect Expenses.—Indirect or selling expenses may be allocated between the departments in four different ways :— (1) by means of direct analysis; (2) according to the amount of floor space occupied by each department; (3) in proportion to the turnover of each department; (4) according to the number of articles sold. It is seldom possible to arrive at the exact amount by means of direct analysis, and the turnover method is considered to yield the fairest results.

Different Methods of Allocation for Items in the same Trading and Profit and Loss Account.—Sometimes the allocation of expenses is dealt with before the Trading Accounts are prepared. This is generally the case where different methods of allocation are used for different items. Thus, Rent, Rates, and Taxes may be apportioned according to the floor space occupied by each department. Wages and Salaries are generally analysed. Insurance Premiums may be apportioned according to the ratio that each department's stock bears to the total departmental stocks insured. Workmen's Compensation Insurance may be divided in the ratio that each department's wages and salaries bear to the total departmental wages and salaries. The apportionment of Printing and Stationery is generally the result of direct analysis, the amounts issued being charged to the departments by the storekeeper. Carriage, Postage, Repairs, Office Expenses are sometimes allocated according to the results of direct analysis, and sometimes in fixed or agreed proportions. The amount of Discounts Allowed, including Reserves for such discounts, is often allocated between the departments in the ratio that each department's sales bear to the total departmental sales for the year. The amount of Discounts Received, including the Reserves for such discounts, is then, likewise, allocated between the departments in the ratio that each department's purchases bear to the total departmental purchases for the period. Depreciation can sometimes be charged direct to the departments according to the value of the assets held by them. Often, however,

Depreciation, Interest on Capital, Legal Expenses, Bank Charges, and other items cannot be satisfactorily apportioned; and, in such cases, they are usually left intact, and finally carried to a General Profit and Loss Account.

(1) Allocation of Expenses by means of Direct Analysis.

Example.—X, Y and Z are equal partners in a business, and are entitled to interest at 5 % per annum on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and the percentages of gross and net profit on turnovers respectively :—

	£	s.	d.
Cash at Bankers	2,029	14	9
,, in hand	620	15	5
,, Creditor	1,500	–	–
Horses, Carts, etc.	625	15	6
Fixtures, Fittings, etc.:—			
A Dept.	4,726	10	5
B ,,	3,841	9	11
Capital Accounts:—			
X (1st Jan.)	25,971	5	8
Y (,,)	18,432	10	7
Z (,,)	15,617	3	10
Drawing Accounts:—			
X	2,500	–	–
Y	1,750	–	–
Z	1,540	–	–

A Department

Stock (1st Jan.)	37,418	10	5
Purchases	65,158	9	2
Sales	89,527	16	6
Trade Expenses	12,107	13	4
Discounts Allowed	2,517	6	2
,, Received	2,067	13	8
Housekeeping Expenses	1,975	10	10
Sundry Creditors	6,162	19	2
Debtors	16,703	12	5

Stock, 31st December, £35,463 15s. 7d.

B Department

Stock (1st Jan.)	7,672	14	5
Purchases	38,516	3	10
Sales	47,732	17	6
Discounts Allowed	1,743	2	8
,, Received	1,169	15	4
Housekeeping Expenses	1,268	8	9
Trade Expenses	5,462	15	6
Sundry Debtors	4,572	6	4
,, Creditors	4,568	17	7

Stock, 31st December, £9,871 13s. 8d.

TRADING AND PROFIT AND LOSS ACCOUNTS

FOR THE YEAR ENDED 31ST DEC., 19—

Dr. *Cr.*

	A Dept.	B Dept.	Total.		A Dept.	B Dept.	Total.
To Stock, 1st January	37,418 10 5	7,672 14 5	45,091 4 10	By Sales	89,527 16 6	47,732 17 6	137,260 14 –
„ Purchases	65,158 9 2	38,516 3 10	103,674 13 –	„ Stock, 31st December	35,463 15 7	9,871 13 8	45,335 9 3
„ Balance (Gross Profit)	22,414 12 6	11,415 12 11	33,830 5 5				
	124,991 12 1	57,604 11 2	182,596 3 3		124,991 12 1	57,604 11 2	182,596 3 3
To Trade Expenses	12,107 13 4	5,462 15 6	17,570 8 10	By Gross Profit b/d	22,414 12 6	11,415 12 11	33,830 5 5
„ Housekeeping Expenses	1,975 10 10	1,268 8 9	3,243 19 7	„ Discounts Received	2,067 13 8	1,169 15 4	3,237 9 –
„ Discounts Allowed	2,517 6 2	1,743 2 8	4,260 8 10				
„ Balance (departmental profits)	7,881 15 10	4,111 1 4	11,992 17 2				
	24,482 6 2	12,585 8 3	37,067 14 5		24,482 6 2	12,585 8 3	37,067 14 5

GENERAL PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19—

Dr. *Cr.*

To Interest on Capital—				By Departmental Profits—		
X: 5% £25,971 5s. 8d.	1,298 11 3			"A" Dept.	7,881 15 10	
Y: 5% £18,432 10s. 7d.	921 12 6			"B" Dept.	4,111 1 4	
Z 5% £15,617 3s. 10d.	780 17 2					11,992 17 2
		3,001 – 11				
„ Balance to Capital A/cs—						
X: ⅓	2,997 5 5					
Y: ⅓	2,997 5 5					
Z: ⅓	2,997 5 5					
		8,991 16 3				
		11,992 17 2				11,992 17 2

Percentage of Gross Profit on Turnover :—"A" Dept., 25·04 ; "B" Dept., 23·92 (22415 × 100 ÷ 89528 and 11416 × 100 ÷ 47733).

„ „ Net „ „ :—"A" Dept., 8·80 ; "B" Dept., 8·61 (7882 × 100 ÷ 89528 and 4111 × 100 ÷ 47733).

BALANCE SHEET AS AT 31ST DECEMBER, 19—

Liabilities.				*Assets.*			
Sundry Creditors—				Cash at Bank	2,029 14 9		
"A" Dept.	6,162 19 2			Cash in hand	620 15 5		
"B" Dept.	4,568 17 7					2,650 10 2	
		10,731 16 9		Sundry Debtors—			
Cash Creditor		1,500 – –		"A" Dept.	16,703 12 5		
Capital Accounts—				"B" Dept.	4,572 6 4		
X, 1st Jan.	25,971 5 8					21,275 18 9	
Add Interest	1,298 11 3			Stock—			
„ Share of Profit	2,997 5 5			"A" Dept.	35,463 15 7		
	30,267 2 4			"B" Dept.	9,871 13 8		
						45,335 9 3	
Less Drawings	2,500 – –			Fixtures and Fittings—			
		27,767 2 4		"A" Dept.	4,726 10 5		
Y, 1st Jan.	18,432 10 7			"B" Dept.	3,841 9 11		
Add Interest	921 12 6					8,568 – 4	
„ Share of Profit	2,997 5 5			Horses and Carts		625 15 6	
	22,351 8 6						
Less Drawings	1,750 – –						
		20,601 8 6					
Z, 1st Jan.	15,617 3 10						
Add Interest	780 17 2						
„ Share of Profit	2,997 5 5						
	19,395 6 5						
Less Drawings	1,540 – –						
		17,855 6 5					
		78,455 14 –				78,455 14 –	

(2) Allocation of Expenses according to Floor Space Occupied.

Example.—Messrs. Reed and Stevens commenced a retail cash business on July 1st, with a Stock of goods divided as follows :—No. 1 Dept., £326 15s. 11d. ; No. 2 Dept., £458 9s. 3d ; No. 3 Dept., £426 17s. 11d. ; No. 4 Dept., £501 10s. 5d. ; No. 5 Dept., £673 4s. 8d. They also had Cash, £552 9s. 4d. ; Fixtures and Fittings, £560 12s. 6d. ; and equal amounts of Capital.

On 31st Dec., the summary of the Cash Book for the half-year was as follows :—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept. . . .	1,256	3	11	No. 1 Dept. . . .	896	4	3
No. 2 ,, . . .	1,578	7	2	No. 2 ,, . . .	792	10	6
No. 3 ,, . . .	1,156	16	5	No. 3 ,, . . .	814	3	7
No. 4 ,, . . .	1,237	10	6	No. 4 ,, . . .	516	16	6
No. 5 ,, . . .	2,178	15	7	No. 5 ,, . . .	1,703	2	8
				,, General Expenses	720	15	–
				,, Drawings—			
				Reed	250	–	–
				Stevens . . .	250	–	–

The following purchases are unpaid on 31st Dec. :—No. 1 Dept., £320 19s. 2d. ; No. 2 Dept., £625 7s. 8d. ; No. 3 Dept., £159 1s. 11d. ; No. 4 Dept., £246 14s. 10d. ; No. 5 Dept., £226 1s. 2d. One quarter's Rent, £120, is also outstanding. The Stocks on hand at the same date are :—No. 1 Dept., £516 10s. 2d. ; No. 2 Dept., £617 3s. 4d. ; No. 3 Dept., £598 16s. 8d. ; No. 4 Dept., £373 11s. 7d. ; No. 5 Dept., £816 17s. 2d.

Draw up Departmental Trading Accounts, adding to the Expenses 20 % per annum for Depreciation of Fixtures. Divide the Expenses thus :—No. 1 Dept., $\frac{5}{45}$ths ; No. 2 Dept., $\frac{7}{45}$ths ; No. 3 Dept., $\frac{9}{45}$ths ; No. 4 Dept., $\frac{11}{45}$ths ; No. 5 Dept., $\frac{13}{45}$ths. Draw up also a Profit and Loss Account and Balance Sheet, allowing Interest on Capital at 5 % per annum, and dividing profits equally.

Dr. DEPARTMENTAL FOR THE HALF-YEAR

	No. 1 Dept.	No. 2 Dept.	No. 3 Dept.	No. 4 Dept.	No. 5 Dept.	Total.
To Stock, 1st July	326 15 11	458 9 3	426 17 11	501 10 5	673 4 8	2,386 18 2
,, Purchases .	1,217 3 5	1,417 18 2	973 5 6	763 11 4	1,929 3 10	6,301 2 3
,, Expenses . .	99 12 11	139 10 1	179 7 3	219 4 5	259 1 7	896 16 3
,, Balance (departmental profits) .	129 1 10	179 13 –	176 2 5	126 15 11	134 2 8	745 15 10
	1,772 14 1	2,195 10 6	1,755 13 1	1,611 2 1	2,995 12 9	10,330 12 6

PROFIT AND LOSS ACCOUNT

Dr. FOR THE HALF-YEAR ENDED 31ST DEC., 19— *Cr.*

To Interest on Capital—				By Trading A/c (departmental profits)—		
Reed, 2½% £1,750	43 15 –			No. 1 Dept.	129 1 10	
Stevens, 2½% £1,750	43 15 –	87 10 –		No. 2 Dept.	179 13 –	
„ Balance (net profit):—				No. 3 Dept.	176 2 5	
Reed, Capital A/c, ½	329 2 11			No. 4 Dept.	126 15 11	
Stevens, „ „ ½	329 2 11	658 5 10		No. 5 Dept.	134 2 8	745 15 10
		745 15 10				745 15 10

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.			*Assets.*		
Creditors		1,578 4 9	Cash		2,016 10 5
Outstanding Rent		120 – –	Stock—		
Capital A/cs—			No. 1 Dept.	516 10 2	
Reed, 1st July	1,750 – –		No. 2 Dept.	617 3 4	
Add Interest	43 15 –		No. 3 Dept.	598 16 8	
„ Share of Profit	329 2 11		No. 4 Dept.	373 11 7	
	2,122 17 11		No. 5 Dept.	816 17 2	2,922 18 11
Less Drawings	250 – –		Fixtures and Fittings	560 12 6	
		1,872 17 11	*Less* Depreciation	56 1 3	504 11 3
Stevens, 1st July	1,750 – –				
Add Interest	43 15 –				
„ Share of Profit	329 2 11				
	2,122 17 11				
Less Drawings	250 – –				
		1,872 17 11			
		5,444 – 7			5,444 – 7

TRADING ACCOUNTS

ENDED 31ST DEC., 19— *Cr.*

	No. 1 Dept.	No. 2 Dept.	No. 3 Dept.	No. 4 Dept.	No. 5 Dept.	Total.
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
By Sales	1,256 3 11	1,578 7 2	1,156 16 5	1,237 10 6	2,178 15 7	7,407 13 7
„ Stock, 31st Dec.	516 10 2	617 3 4	598 16 8	373 11 7	816 17 2	2,922 18 11
	1,772 14 1	2,195 10 6	1,755 13 1	1,611 2 1	2,995 12 9	10,330 12 6

Note 1.—The Original Capital is arrived at as follows :—Stock £2,386 18s. 2d. + Cash £552 9s. 4d. + Fixtures £560 12s. 6d. = £3,500 = £1,750 each partner.

Note 2.—The Expenses are arrived at thus :—Amount paid £720 15s. + Outstanding Rent £120 + Depreciation of Fixtures (½ year) £56 1s. 3d. = £896 16s. 3d.

Note 3.—The final Cash balance is obtained as follows :—Balance 1st July £352 9s. 4d. + Receipts £7,407 13s. 7d. – Payments £5,943 12s. 6d. = £2,016 10s. 5d.

Note 4.—The Creditors are composed of the amounts owing for the unpaid Purchases of the different departments at 31st Dec., which when totalled amount to £1,578 4s. 9d.

(3) Allocation of Expenses according to Turnover.

Example.—From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st Dec., 19 . . , apportioning the expenses between the departments in proportion to their respective turnovers :—

	£	s.	d.
Stock (Raw Materials and Finished Goods) :—			
A Dept., 1st January	7,954	18	11
B ,, ,,	6,987	12	10
Purchases (Raw Materials), A Dept.	19,846	15	3
,, ,, ,, B ,,	14,895	17	11
Sales A Dept.	48,994	2	7
,, B ,,	32,662	14	11
Exhibition Expenses	1,915	16	8
Wages A Dept.	3,987	14	10
,, B ,,	1,989	19	9
Travellers' Commission and Expenses	5,376	17	6
Rent, Rates, and Taxes	987	12	6
Furniture and Fixtures	1,275	–	–
Salaries	3,579	11	8
Working Plant and Utensils	55,595	–	–
Insurance (£35 of this is prepaid)	808	10	5
Bad Debts Reserve, 1st January	748	10	7
Horses, Harness, Motor Vans and Vehicles	7,987	1	8
Directors' Fees	2,025	–	–
Sundry Debtors	22,953	10	–
Postage, Telegrams, and Bill Stamps	917	8	9
Difference in Exchange (*Dr.* balance)	38	18	4
Sundry Expenses	2,796	4	7
Bad Debts	828	14	7
Stationery, Sample Books, and Catalogues (£345 of these are still in stock)	3,376	12	6
Debenture Interest	630	–	–
Discounts on Purchases	1,748	13	9
,, Sales	3,268	15	5
Stable and Motor Expenses	637	3	9

Depreciate Working Plant, etc., 10 %; Horses, Harness, Motor Vans, etc., 20 %; Furniture, 2½ %. Make a Reserve of 5 % on

Sundry Debtors, for Bad Debts. Stock of Raw Materials and Finished Goods on 31st Dec., 19 . . , was :—

A Dept., £9,895 18s. 11d. ; B Dept., £7,958 12s. 10d.

Decimalisation of Money.—Formidable as the above task of apportioning the expenses according to the turnovers appears, it is not nearly so when one knows the proper way of setting about it. And the proper way in this case is to decimalise *at sight* approximately. Now numbers of senior students, we find, have not touched arithmetic for many years, and are therefore unacquainted with this modern process. So we propose to give a short explanation of it. But our explanation will be strictly limited to what is necessary in order to understand the following worked solutions, as it is not the province of this work to teach arithmetic proper. To familiarise themselves with modern processes and up-to-date methods in commercial arithmetic, students cannot do better than procure a copy of *Pitman's Complete Mercantile Arithmetic.*

One shilling = $\frac{1}{20}$ of a £, or £0·05. One farthing = $\frac{1}{960}$ of a £, but for convenience of calculation it is taken as $\frac{1}{1000}$ of a £, as ·001, or £0·001. This latter decimal gives rise to a slight inaccuracy in calculations. For example, 3d. = 12 farthings = ·012 (·001 × 12) ; but $\frac{3}{240} = \frac{1}{80}$ = ·0125, or ·013 approximately to three places of decimals. Again 9d. = 36 farthings = ·036 (·001 × 36) ; but $\frac{9}{240} = \frac{3}{80}$ = ·0375, or ·038 approximately to three places of decimals. An adjustment has consequently to be made in order to obviate these errors.

Rule for Decimalising Fractions of a £.—(1) Multiply the pence by 4 to bring them to farthings, and add on any farthings in the sum ; if the result is 12 or over, add on 1 ; if 36 or over, add on 2. Put down the unit figure of the result as the third place decimal, and carry the ten's figure.

(2) Multiply the shillings by 5, and add on the figure carried from the pence operation, and the result will be the first and second place decimals.

Remember that there must be *three* places of decimals whenever there are any pence in the sum to be decimalised, and therefore if the shillings and pence yield only two place decimals, a *nought* must be put in front of them.

Example 1.—What decimal of a £ is 17s. 3¾d. ? 3 × 4 + 3 = 15 ; 15 + 1 = 16, 6 and carry 1. 17 × 5 + 1 = 86. Ans. £·866.

Example 2.—What decimal of a £ is 1s. 2½d. ? 2 × 4 + 2 = 10, 0 and carry 1. 1 × 5 + 1 = 6. Ans. £0·060, *not* £0·60.

Application to Worked Example.—The turnovers of the departments must be decimalised. "A" Dept. = £48994·129, "B" Dept. = £32,662·746, Total turnover = £81,656·875

81656·875) 48994·129 (·6 ; and 81656·875)32662·746(·4

·6 = $\frac{6}{10}$ths = $\frac{3}{5}$ths ; and ·4 = $\frac{4}{10}$ths = $\frac{2}{5}$ths.

Dr.

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DEC., 19—

Cr.

	A Dept.	B Dept.	Total.		A Dept.	B Dept.	Total.
To Stock, 1st Jan.	7,954 18 11	6,987 12 10	14,942 11 9	By Sales	48,994 2 7	32,662 14 11	81,656 17 6
„ Purchases	19,846 15 3	14,895 17 11	34,742 13 2	„ Stock, 31st Dec.	9,895 18 11	7,958 12 10	17,854 11 9
„ Wages	3,987 14 10	1,989 19 9	5,977 14 7				
„ Balance (Gross Profit)	27,100 12 6	16,747 17 3	43,848 9 9				
	58,890 1 6	40,621 7 9	99,511 9 3		58,890 1 6	40,621 7 9	99,511 9 3
To Travellers' Commission and Expenses	3,226 2 6	2,150 15 –	5,376 17 6	By Balance (Gross Profit)	27,100 12 6	16,747 17 3	43,848 9 9
„ Rent, Rates, and Taxes	592 11 6	395 1 –	987 12 6	„ Discounts on Purchases	1,049 4 3	699 9 6	1,748 13 9
„ Salaries	2,147 15 –	1,431 16 8	3,579 11 8				
„ Insurance (£808 10s. 5d. – £35)	464 2 3	309 8 2	773 10 5				
„ Directors' Fees	1,215 – –	810 – –	2,025 – –				
„ Postage, Telegrams, and Bill Stamps	550 9 3	366 19 6	917 8 9				
„ Exhibition Expenses	1,149 10 –	766 6 8	1,915 16 8				
„ Sundry Expenses	1,677 14 9	1,118 9 10	2,796 4 7				
„ Stationery and Samples (£3,376 12s. 6d. – £345)	1,818 19 6	1,212 13 –	3,031 12 6				
„ Discounts on Sales	1,961 5 3	1,307 10 2	3,268 15 5				
„ Stable and Motor Expenses	382 6 3	254 17 6	637 3 9				
„ Debenture Interest	378 – –	252 – –	630 – –				
„ Difference in Exchange	23 7 –	15 11 4	38 18 4				
„ Bad Debts	497 4 9	331 9 10	828 14 7				
„ Bad Debts Reserve (£1,147 13s. 6d. – £748 10s. 7d.)	239 9 9	159 13 2	399 2 11				
„ Depreciation—							
Working Plant, 10% £5,595	3,335 14 –	2,223 16 –	5,559 10 –				
Horses, Motors, etc., 20% £7,987 1s. 8d.	958 9 –	638 19 4	1,597 8 4				
Furniture, 2½% £1,275	19 2 6	12 15 –	31 17 6				
„ Balance (Net Profit)	7,512 13 6	3,689 4 7	11,201 18 1				
	28,149 16 9	17,447 6 9	45,597 3 6		28,149 16 9	17,447 6 9	45,597 3 6

Note.—
"A" Dept. = ⅗ or 60%
"B" Dept. = ⅖ or 40%

(4) Allocation of Expenses according to Number of Articles sold.

Example.—The Toilet Requisites Co. manufacture two specialities, namely, "Venus" Soap and "Hebe" Scent. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June :—

	£	s.	d.
Stocks of Raw Materials, Soap (1st July)	625	15	6
" " " " (30th June)	826	4	10
" " " Scent (1st July)	234	13	10
" " " " (30th June)	275	6	9
" Manufactured Soap (1st July)	537	3	11
" " " (30th June)	872	3	5
" " Scent (1st July)	216	17	5
" " " (30th June)	266	10	8
" Labels, Boxes, Bottles, etc., Soap (1st July)	135	9	4
" " " " (30th June)	207	8	9
" " " " Scent (1st July)	172	6	9
" " " " " (30th June)	135	4	6
Purchases of Raw Materials, Soap	516	12	8
" " " Scent	407	10	2
" Labels, Boxes, Bottles, etc., Soap	323	14	5
" " " " Scent	243	15	6
Wages, Soap Dept.	523	8	7
" Scent "	602	13	4
Manufacturing Expenses, Soap Dept.	56	13	8
" " Scent "	198	7	8
Salaries	326	3	10
Advertising	3,619	14	6
Printing and Stationery	447	6	5
Postage	326	17	8
Rent, Rates, and Taxes	665	16	6
Sundry Expenses	279	4	3

Sales of Soap, 354,741 cakes @ 4½d. per cake.
" Scent, 61,638 bottles @ 1s. 3d. per bottle.

The undivided expenses are to be apportioned between the two departments according to the *number* of cakes of soap or bottles of scent sold. (See following page.)

Apportionment of Expenses according to Number of Articles Sold.—This appears to be a formidable task, and to a certain extent it is. We must, of course, resort to decimals; other methods of calculation are quite out of the question, owing to the huge multiplication and division sums involved.

$$354{,}741 + 61{,}638 = 416{,}379$$

$$\frac{354{,}741}{416{,}379} = \cdot 851967; \text{ and } \frac{61{,}638}{416{,}379} = \cdot 148033$$

In order to obtain absolute accuracy it is necessary to take at least *six* decimal places. In approximating the sixth decimal place, the student must be careful to see that the two decimal

TRADING AND PROFIT AND LOSS ACCOUNT.

Dr. FOR THE YEAR ENDED 30TH JUNE, 19— *Cr.*

	Soap.	Scent.	Total.		Soap.	Scent.	Total.
To Stocks (1st July)—				By Sales—			
Raw Materials	625 15 6	234 13 10	860 9 4	354,741 Cakes Soap @ 4½d.	6,651 7 11		
Manufactured Goods	537 3 11	216 17 5	754 1 4	61,638 bottles Scent @ 1s. 3d.		3,852 7 6	10,503 15 5
Labels, Bottles, Boxes, etc.	135 9 4	172 6 9	307 16 1	„ Stocks—			
„ Purchases, etc.—				Raw Materials	826 4 10	275 6 9	1,101 11 7
Raw Materials	516 12 8	407 10 2	924 2 10	Manufactured Goods	872 3 5	266 10 8	1,138 14 1
Labels, Bottles, Boxes, etc.	323 14 5	243 15 6	567 9 11	Labels, Boxes, Bottles, etc.	207 8 9	135 4 6	342 13 3
„ Wages	523 8 7	602 13 4	1,126 1 11				
„ Manufacturing Expenses	56 13 8	198 7 8	255 1 4				
„ Balance (Gross Profit)	5,838 6 10	2,453 4 9	8,291 11 7				
	8,557 4 11	4,529 9 5	13,086 14 4		8,557 4 11	4,529 9 5	13,086 14 4
To Salaries	277 18 1	48 5 9	326 3 10	By Gross Profits b/d	5,838 6 10	2,453 4 9	8,291 11 7
„ Advertising	3,083 17 9	535 16 9	3,619 14 6				
„ Printing and Stationery	381 2 1	66 4 4	447 6 5				
„ Postage	278 9 11	48 7 9	326 17 8				
„ Rent, Rates, and Taxes	567 5 3	98 11 3	665 16 6				
„ Sundry Expenses	237 17 7	41 6 8	279 4 3				
„ Balance (Net Profit)	1,011 16 2	1,614 12 3	2,626 8 5				
	5,838 6 10	2,453 4 9	8,291 11 7		5,838 6 10	2,453 4 9	8,291 11 7

parts when added together equal unity; that they are neither *greater* nor *less*. Thus, ·148033 + ·851967 = 1. We could not take ·148034 and ·851967, or ·148033 and ·851966. Each of the amounts to be apportioned must be decimalised, and then multiplied by its appropriate decimal part of the total number of articles sold. For example, Salaries £326 3s. 10d. will be apportioned thus:— £326·192 × ·851967 = £277 18s. 1d. for Soap Dept.; £326·192 × ·148033 = £48 5s. 9d. for Scent Dept.

Modern Methods of Calculation.—In working this and similar examples the student should employ modern methods, which are easily acquired, and which undoubtedly effect a great saving of time. The striking contrast between the old and the modern method can be seen from the following, which exemplifies the working of the first multiplication sum:—

Old Method.		Modern Method.	
(*a*)	326 192	(*a*)	32·61920
	·148033		1·48033
	978576		32·619 20
	978576		13·047 68
	26095360		2·609 54
	1304768		9 78
	326192		98
	48·287180336		48·287 18
(*b*)	326·192	(*b*)	32·61920
	·851967		8·51967
	2283344		260·953 60
	1957152		16·309 60
	2935728		·326 19
	326192		·293 57
	1630960		19 57
	2609536		2 28
	277·904819664		277·904 81

The multiplier has first of all to be put into "standard form," and a corresponding adjustment made in the multiplicand. Then two extra places of decimals must be allowed for beyond the number required, which, in this case, is three, as this number will give us the £ s. d. result to the nearest farthing. A fuller explanation of this method will be found in the text-book we have previously mentioned (p. 281).

Conversion of Decimals of a £ into Money.—When multiplying as explained above, the result obtained will be pounds and decimal

fractions of a pound. The latter must be converted into shillings and pence *at sight.*

Rule.—(1) Take answer to only four places of decimals. Approximate the third figure; that is, if the fourth figure is 5 or over, then make the third decimal figure 1 more.

(2) Divide the first two figures by 5, and the result will be shillings.

(3) Take the remainder (if any) and place the third decimal figure by the side of it; if the number is 12 or more, subtract 1; if 36 or more, subtract 2. Call the amount farthings, divide by 4, and the result will be pence and fractions of a penny.

Example 1.—The result of the first multiplication, £326·192 × ·851967 = £277·9048 to four places of decimals. This equals £277·905 to three places approximately. 90 ÷ 5 = 18s.; 5 ÷ 4 = 1¼d. Ans. = £277 18s. 1¼d.

Example 2.—The result of the second multiplication £326·192 × ·148033 = £48·2871 to four places of decimals. This equals £48·287 to three places approximately. 28 ÷ 5 = 5s., and 3 over. Three together with 7 = 37; 37 − 2 = 35; 35 ÷ 4 = 8¾d. Ans. = £48 5s. 8¾d.

Separate Trading Accounts for each Department.—Where the same item of expenditure or charge is common to each department, a tabular Trading and Profit and Loss Account is advantageous. But where different expenses and charges are incurred in the various departments, separate Trading Accounts must be prepared for each.

Example.—From the following particulars of the Motor Car Engineering Works, Ltd., prepare departmental Trading Accounts and a general Profit and Loss Account for the year ended 31st Dec., 19 . . :—

	£	s.	d.
Fixtures and Fittings	75	13	9
Loose Plant and Tools	225	12	7
Sundry Debtors	2,925	4	5
Cars bought for re-sale	12,500	–	–
Carriage on Cars sold	115	4	6
Management Expenses	510	13	8
Profit and Loss Account (undistributed balances, 1st Jan.)	650	5	10
Bad Debts	50	3	7
Petrol, Oil, etc., used	625	16	5
Charged to Customers for Hire of Cars	405	12	6
Sales of Motor Cars	14,750	–	–
Charged to Customers for Repairs to Cars	950	13	8
Accessories (Tyres, Tubes, etc.) used	2,350	4	10
Stock of Cars for Hiring out	650	15	11
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	375	13	8
Expenses of Hire Cars	225	6	3
Sales of Petrol, Oil, etc.	975	14	10
Garage Rents received	90	9	8
Debenture Interest	125	–	–

	£	s.	d
Repairs to Plant, etc.	27	6	6
Sales of Accessories (Tyres, Tubes, etc.)	2,735	15	3
Wages in Yard.	156	10	8
Cost of Repairs to Cars (Wages, Materials, etc.)	875	8	10
Bad Debts Reserve, 1st Jan.	120	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	166	10	5

The following adjustments are necessary :—Bad Debts Reserve, 5 % Debtors; Depreciation: Loose Plant and Tools, 20 %; Fixtures and Fittings, 5 %; Cars for hire, 20 %; the manager is entitled to a Commission of 5 % of the net profit after charging this Commission.

MOTOR CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

To Purchases	12,500	–	–	By Sales	14,750	–	–
„ Balance (Gross Profit)	2,250	–	–				
	14,750	–	–		14,750	–	–

ACCESSORIES TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

To Accessories used	2,350	4	10	By Sales of Accessories	2,735	15	3
„ Petrol, Oil, etc., used	625	16	5	„ Sales of Petrol, Oil, etc.	975	14	10
„ Balance (Gross Profit)	735	8	10				
	3,711	10	1		3,711	10	1

REPAIRS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

To Cost of Repairing Cars	875	8	10	By Amounts Charged to Customers for Repairs to Cars	950	13	8
„ Balance (Gross Profit)	75	4	10				
	950	13	8		950	13	8

HIRE CARS TRADING ACCOUNT

Dr. FOR THE YEAR ENDED 31ST DEC., 19— *Cr.*

To Expense of Hire Cars	225	6	3	By Charges to Customers for Hire of Cars	405	12	6
„ Depreciation of Hire Cars, 20%, £650 15s. 11d.	130	3	2				
„ Balance (Gross Profit)	50	3	1				
	405	12	6		405	12	6

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Carriage on Cars sold	115	4	6	By Trading Accounts (gross profits)—			
„ Management Expenses	510	13	8	Motor Cars	2,250	–	–
„ Bad Debts	50	3	7	Accessories	735	8	10
„ Repairs to Plant, etc.	27	6	6	Repairs	75	4	10
„ Debenture Interest	125	–	–	Hire Cars	50	3	1
„ Wages in Yard	156	10	8	, Garage Rents	90	9	8
„ Bad Debts Reserve— 5% £2,925				„ Sundry Receipts	166	10	5
4s. 5d. £146 5 3 Less Old Reserve 120 – –							
	26	5	3				
„ Depreciation— Loose Tools and Plant, 20% £225 12s. 7d.	45	2	6				
Fixtures, etc., 5% £75 13s. 9d.	3	15	8				
„ Manager's Commission, $\frac{5}{105}$ of £2,307 14s. 6d.	109	17	10				
„ Balance (Net Profit) to Appropriation A/c	2,197	16	8				
	3,367	16	10		3,367	16	10

Note re Manager's Commission.—This is a difficulty over which students constantly stumble. As the net profit is not yet known, the calculation must be made on the gross amount distributable, namely $\frac{5}{105}$ of £2,307 14s. 6d.; which, as can be seen, is equal to $\frac{5}{100}$ of £2,197 16s. 8d.

QUESTIONS ON CHAPTER IX

1. Explain what is meant by "Departmental" Accounts.
2. Submit rulings of a Purchases Book suitable for a business having four departments.
3. Submit rulings of a Sales Book suitable for a business dealing in Tea, Coffee, Cocoa, and Sugar, each of which is a separate department.
4. Explain how the Ledger is affected by the keeping of "departmental" accounts. Give examples.
5. State briefly the advantages to be derived from a system of "departmental" accounts.
6. Are "departmental" accounts adopted with a view to ascertaining the *gross* or the *net* profit of each department?
7. What difficulties are there in the way of arriving at the "net" profit of each department?
8. What is meant by the phrase "allocation of indirect expenses?"
9. What methods are in vogue with reference to the allocation of indirect expenses as between different departments? Which is considered to yield the fairest result?
10. When it is not possible to make a tabular Trading Account of several departments owing to the items being different in each, what procedure must be resorted to?

EXERCISE IX

1. A manufacturer, whose business is divided into the three departments of knitted mufflers, sailors' jerseys, and woollen gloves, adopts the following method of recording his sale transactions. When goods are dispatched, an Invoice is made out in an Invoice Carbon Copy Book, and sent to the purchaser. The Carbon Copy Book is then handed to the Ledger Clerk, who

writes the Ledger folio of the customer's account under the total of the Copy Invoice, and posts the item to the debit of the customer's account in the Ledger thus:—

Invoice No.

April 1, 19.. To Goods, N.B. 0001 . . £59 12 10

Does this method appear to you to provide an adequate record for book-keeping purposes? If not, what would you suggest, and with what object? —(*Royal Society of Arts.*)

2. Explain briefly and comment upon some system of Departmental Accounts with which you are familiar.—(*National Union of Teachers.*)

3. The Needlebore Trading Co. manufactures and sells Linoleum and Carpets. From the following particulars prepare Trading and Profit and Loss Accounts, apportioning the undivided expenses in proportion to the turnovers of the departments:—

	Linoleum Dept.			*Carpet Dept.*		
	£	s.	d.	£	s.	d.
Stocks (1st Jan.)	1,956	12	3	2,285	7	8
Purchases (net)	8,385	3	4	3,649	18	9
Wages	3,958	14	5	2,017	5	2
Manufacturing Expenses (including Depreciation of Plant) . . .	2,075	5	6	1,474	3	6
Sales (net)	21,446	8	4	10,723	4	2
Stocks (31st Dec.)	1,754	9	6	2,071	17	6

Salaries, £3,068 10s. 7d.; Rent, Rates, and Taxes, £1,789 14s. 8d.; General Expenses, £916 18s. 9d.

4. Jeffrey, Slater & Gibbs are equal partners in a business, and are entitled to interest at 5 per cent. per annum on their respective capitals before division of profits. All other adjustments have been made. From the following particulars for the year ended 31st December, draw up Trading and Profit and Loss Account, showing the gross and net profit of each department, and the percentages of gross and net profit on turnovers respectively:—

	£	s.	d.
Cash at Bank . . .	1,987	14	3
,, in hand . . .	520	13	2
,, Creditor . . .	2,000	–	–
Horses, Carts, etc. .	752	10	8
Fixtures, Fittings, etc.—			
"A" Dept. . . .	3,985	14	7
"B" ,, . . .	4,106	12	9
Capital Accounts (1st Jan.)—			
Jeffrey	23,516	10	2
Slater	13,176	4	8
Gibbs	13,176	16	7
Drawing Accounts—			
Jeffrey	2,750	–	–
Slater	2,000	–	–
Gibbs	1,650	–	–

"A" Dept.

Stock, 1st Jan. . .	32,516	11	8
Purchases	61,987	16	7
Sales	81,082	13	11
Trade Expenses . .	9,027	14	3
Discounts Allowed .	2,016	17	4
,, Received .	1,856	4	4
Housekeeping Expenses	1,632	5	7
Sundry Creditors . .	4,438	15	10
,, Debtors . .	14,891	13	6

Stock, 31st Dec., £31,678 10s. 5d.

"B" Dept.

Stock, 1st Jan. . .	7,497	12	6
Purchases	36,518	14	9
Sales	46,916	19	8
Discounts Allowed .	1,628	10	5
,, Received .	1,534	5	6
Trade Expenses . .	4,159	10	11
Housekeeping Expenses	1,079	14	2
Sundry Debtors . .	4,178	18	5
,, Creditors . .	3,987	14	10

Stock, 31st Dec., £8,918 16s. 8d.

5. Messrs. Davis & Smith commenced a retail cash business on 1st July with a Stock of goods divided as follows: No. 1 Dept., £373 10s. 2d.; No. 2 Dept., £478 11s. 9d.; No. 3 Dept., £402 19s. 6d.; No. 4 Dept., £537 15s. 6d.; No. 5 Dept., £667 13s. 3d. They also had Cash, £773 6s.; Fixtures and Fittings, £616 3s. 10d.; and equal amounts of Capital. On 31st December, the summary of their Cash Book for the half-year was as follows:—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
No. 1 Dept. . .	1,309	14	5	No. 1 Dept. . .	773	10	6
No. 2 ,, . .	1,572	3	10	No. 2 ,, . .	770	9	5
				No. 3 ,, . .	852	12	4
No. 3 ,, . .	1,638	15	6	No. 4 ,, . .	917	13	8
No. 4 ,, . .	1,719	18	3	No. 5 ,, . .	1,262	11	10
No. 5 ,, . .	2,082	11	5	,, General Expenses .	816	15	11
				,, Drawings—			
				Davis . . .	300	–	–
				Smith. . . .	300	–	–

On 31st December the following purchases were unpaid: No. 1 Dept., £353 14s. 5d.; No. 2 Dept., £539 10s. 8d.; No. 3 Dept., £446 13s. 9d.; No. 4 Dept., £355 9s. 7d.; No. 5 Dept., £340 16s. 5d. One quarter's Rent, £115, is also outstanding. Stocks on hand at this date are: No. 1 Dept., £427 15s. 4d.; No. 2 Dept., £531 9s. 5d.; No. 3 Dept., £457 8s. 4d.; No. 4 Dept., £567 17s. 11d.; No. 5 Dept., £757 14s. 4d. Draw up Departmental Trading Accounts, adding to the Expenses 20 per cent. per annum for depreciation of Fixtures. Divide the Expenses as follows: No. 1 Dept., $\frac{3}{35}$ths; No. 2 Dept., $\frac{5}{35}$ths; No. 3 Dept., $\frac{7}{35}$ths; No. 4 Dept., $\frac{3}{35}$ths; No. 5 Dept., $\frac{11}{35}$ths. Draw up also a Profit and Loss Account and Balance Sheet as at 31st December, allowing interest on Capital at 5 per cent. per annum, and dividing profits equally.

6. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the departments in proportion to their respective turnovers:—

	£	s.	d.
Purchases (Raw Materials) A Dept.	19,573	12	8
,, (,,) B ,, ...	14,846	3	6
Wages, A Dept.	3,846	5	10
,, B ,, ...	1,945	16	4
Rent, Rates, and Taxes	1,150	–	–
Insurance (£26 of this is prepaid)	367	10	6
Horses, Harness, Motor Vans and Vehicles . . .	7,500	–	–
Sundry Expenses	2,750	10	5
Discounts on Purchases	416	11	3
Stock (Raw Materials and Finished Goods)..			
A Dept. (1st Jan.)	7,261	4	2
B ,, (,,)	6,946	12	8
Stable and Motor Expenses	560	5	5
Sundry Debtors	22,630	10	–
Sales, A Dept.	47,328	14	1
,, B ,, ...	31,552	9	5
Bad Debts	720	5	5
Postage, Telegrams, and Bill Stamps	746	3	4

	£	s.	d.
Directors' Fees	1,500	–	–
Furniture and Fixtures	1,055	–	–
Working Plant and Utensils	43,703	3	4
Exhibition Expenses	1,843	1	3
Bad Debts Reserve (1st Jan.)	720	10	6
Debenture Interest	500	–	–
Salaries	2,990	5	10
Discounts on Sales	945	8	4
Travellers' Commission and Expenses	4,500	10	5
Stationery, Sample Books, and Catalogues (£46 of these are still in stock)	1,572	4	3
Difference in Exchange (*Dr.* balance)	32	9	2

Depreciate Working Plant, etc., 10%; Horses, Harness, Motor Vans, etc., 10%; Furniture, 2½%. Make a Reserve of 5% on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December, was:—
A Dept., £9,432 12s. 6d.; B Dept., £7,846 15s. 3d.

7. The Toilet Specialities Co. manufacture and sell two popular articles, "Excelsior" Hair Cream and "De Luxe" Tooth Powder respectively. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ending 30th June:—

	£	s.	d.
Stock of Raw Materials, Hair Cream (1st July)	807	13	8
" " " " (30th June)	616	10	8
" " " Tooth Powder (1st July)	316	4	5
" " " " (30th June)	361	14	4
Stock of Manufactured Hair Cream (1st July)	713	9	10
" " " (30th June)	543	17	6
" " Tooth Powder (1st July)	307	18	9
" " " (30th June)	378	5	6
" Bottles, Boxes, Labels, etc., Hair Cream (1st July)	307	10	8
" " " " " (30th June)	238	12	2
" " " " Tooth Powder (1st July)	246	15	3
" " " " " (30th June)	247	15	7
Purchases of Raw Materials, Hair Cream	727	4	9
" " " Tooth Powder	517	6	5
" Bottles, Boxes, Labels, etc., Hair Cream	518	5	5
" " " " Tooth Powder	323	14	6
Manufacturing Expenses, Hair Cream	268	10	7
" " Tooth Powder	243	16	7
Wages, Hair Cream Dept.	707	14	3
" Tooth Powder "	734	7	8
Salaries	427	15	5
Advertising	5,896	3	10
Postage	506	7	8
Rent, Rates, and Taxes	722	16	9
Sundry Expenses	317	18	6

Sales of Hair Cream, 75,896 bottles @ 1s. 11d. bottle.
" Tooth Powder, 498,878 boxes @ 5½d. box.

The undivided expenses are to be apportioned between the two departments according to the *number* of bottles of Hair Cream or boxes of Tooth Powder sold.

8. From the particulars (on the next page) of the Luxworth Motor Car Works, Ltd., draw up departmental Trading Accounts, and a Profit and Loss Account, for the year ending 31st December, 19..

	£	s.	d.
Fixtures and Fittings	110	15	6
Loose Plant and Tools	378	10	9
Sundry Debtors	3,026	15	8
Cars bought for re-sale	15,725	–	–
Carriage on Cars sold	129	16	6
Management Expenses	487	14	3
Profit and Loss Account—*Cr.* bal. 1st Jan.	706	4	8
Bad Debts	110	9	6
Petrol, Oil, etc., used	657	5	11
Charged to Customers for Hire of Cars	467	13	9
Sales of Motor Cars	18,950	–	–
Charged to Customers for Repairs to Cars	906	12	7
Accessories (Tyres, Tubes, etc.) used	2,418	15	6
Hire Cars	574	–	–
Stock of Accessories (Tyres, Petrol, Oil, etc.) as at 31st December, 19..	356	8	7
Expenses of Hire Cars	208	14	5
Sales of Petrol, Oil, etc.	1,026	13	4
Garage Rents Received	110	15	6
Debenture Interest	125	–	–
Repairs to Plant, etc.	29	13	2
Sales of Accessories (Tyres, Tubes, etc.)	2,907	14	8
Wages in Yard	148	10	3
Cost of Repairs to Cars (Wages, Materials, etc.)	816	16	5
Bad Debts Reserve, 1st January	150	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	175	19	2

The following adjustments are necessary: Bad Debts Reserve, 5% Debtors; Depreciation: Loose Tools, 20%; Fixtures and Fittings, 5%; Hire Cars, 20%; the manager is entitled to a Commission of 5% of the net profit after charging this commission.

9. Smith, Brown & Johnson are equal partners in a business, and are entitled to interest at 5 per cent. on their respective Capitals before the division of profits. All other adjustments have been made, and from the following particulars you are requested to draw up Trading and Profit and Loss Accounts and Balance Sheet, showing the gross and net profits of each department, and also the percentages of gross and net profit on turnovers respectively:—

	£	s.	d.
Capital Accounts—			
Smith (1st Jan.)	51,942	11	4
Brown (,,)	36,865	1	2
Johnson (,,)	31,234	7	8
Drawing Accounts—			
Smith	5,000	–	–
Brown	3,500	–	–
Johnson	3,080	–	–
Cash at Bank	4,059	9	6
,, in hand	1,241	10	10
Fixtures, Fittings, etc.—			
No. 1 Dept.	9,453	0	10
No. 2 ,,	7,682	19	10
Horses, Carts, etc.	1,251	11	0
Cash Creditor	3,000	–	–
No. 1 Dept.			
Sundry Debtors	33,407	4	10
,, Creditors	12,325	18	4
Sales	179,055	13	–
Stock (1st Jan.)	74,837	–	10
Purchases	130,316	18	4
Housekeeping Expenses	3,951	1	8
Discounts Allowed	5,034	12	4
,, Received	4,135	7	4
Trade Expenses	24,215	6	8
Stock, 31st Dec., £70,927 11s. 2d.			
No. 2 Dept.			
Sundry Debtors	9,144	12	8
,, Creditors	9,137	15	2
Sales	95,465	15	–
Stock (1st Jan.)	15,345	8	10
Purchases	77,032	7	8
Housekeeping Expenses	2,536	17	6
Discounts Allowed	3,486	5	4
,, Received	2,339	10	8
Trade Expenses	10,925	11	–
Stock, 31st Dec., £19,743 7s. 4d.			

10. Messrs. Hammond & Nelson commenced a retail cash business on 1st July with a Stock of Goods divided as follows: A Dept., £653 11s. 10d.; B Dept., £916 18s. 6d.; C Dept., £853 15s. 10d.; D Dept., £1,003 0s. 10d.; E Dept., £1,346 9s. 4d. They also had Fixtures and Fittings, £1,121 5s.; equal amounts of Capital; and Cash, £1,104 18s. 8d.

The following was the summary of their Cash Book for the half-year ended 31st December:—

	£	s.	d.		£	s.	d.
To Sales—				By Purchases—			
A Dept.	2,512	7	10	A Dept.	1,792	8	6
B „	3,156	14	4	B „	1,585	1	–
C „	2,313	12	10	C „	1,628	7	2
D „	2,475	1	–	D „	1,033	13	–
E „	4,357	11	2	E „	3,406	5	4
				„ General Expenses	1,441	10	–
				„ Drawings—			
				Hammond	500	–	
				Nelson	500	–	–

The following purchases are unpaid on 31st December: A Dept., £641 18s. 4d.; B Dept., £1,250 15s. 4d.; C Dept., £318 3s. 10d.; D Dept., £493 9s. 8d.; E Dept., £452 2s. 4d. One quarter's Rent, £240, is also outstanding. The Stocks on hand at 31st December are: A Dept., £1,033 0s. 4d.; B Dept., £1,234 6s. 8d.; C Dept., £1,197 13s. 4d.; D Dept., £747 3s. 2d.; E Dept., £1,633 14s. 4d.

Draw up Departmental Trading Accounts, adding to the Expenses 20% per annum for Depreciation of Fixtures. Divide the Expenses thus: A Dept., $\frac{1}{5}$th; B Dept., $\frac{7}{25}$ths; C Dept., $\frac{1}{5}$th; D Dept., $\frac{1}{25}$ths; E Dept., $\frac{1}{25}$ths. Draw up also a Profit and Loss Account, and Balance Sheet, allowing Interest on Capital at 5 per cent. per annum, and dividing profits equally.

11. From the following particulars prepare Departmental Trading and Profit and Loss Accounts for the year ended 31st December, apportioning the expenses between the two departments in proportion to their respective turnovers:—

	£	s.	d.
Stock (Raw Materials and Finished Goods):—			
X Dept. (1st Jan.)	15,909	17	10
Y „ („)	13,975	5	8
Purchases (Raw Materials), X Dept.	39,693	10	6
„ („ „), Y „	29,791	15	10
Sales, X Dept.	97,988	5	2
„ Y „	65,325	9	10
Exhibition Expenses	3,831	13	4
Wages, X Dept.	7,975	9	8
„ Y „	3,979	19	6
Travellers' Commission and Expenses	10,753	15	–
Rent, Rates, and Taxes	1,975	5	–
Fixtures and Fittings	2,550	–	–
Salaries	7,159	3	4
Working Plant and Utensils	111,190	–	–
Insurance (£70 of this is prepaid)	1,617	–	10
Bad Debts Reserve, 1st Jan.	1,497	1	2
Horses, Harness, Motor Vans and Vehicles	15,974	3	4
Directors' Fees	4,050	–	–

	£	s.	d.
Sundry Debtors	45,907	–	–
Postage, Telegrams, and Bill Stamps	1,834	17	6
Difference in Exchange (*Dr.* balance)	77	16	8
Sundry Expenses	5,592	9	2
Bad Debts	1,657	9	2
Stationery, Sample Books, and Catalogues (£690 of these are still in stock)	6,753	5	–
Debenture Interest	1,260	–	–
Discounts on Purchases	3,497	7	6
„ on Sales	6,537	10	10
Stable and Motor Expenses	1,274	7	6

Depreciate Working Plant 10%; Horses, Harness, etc., 20%; Furniture, 2½%. Make a Reserve of 5% on Sundry Debtors. Stock of Raw Materials and Finished Goods on 31st December was:—

X Dept., £19,791 17s. 10d.; Y Dept., £15,917 5s. 8d.

12. The Table Delicacies Co. manufacture and sell two specialities, namely, "Tip Top" Fish Paste and "A1" Sauce. From the following particulars draw up the Company's Trading and Profit and Loss Accounts for the year ended 30th June:—

	£	s.	d.
Stocks of Raw Materials:—			
Fish Paste (1st July)	1,251	11	–
„ „ (30th June)	1,652	9	8
Sauce (1st July)	469	7	8
„ (30th June)	550	13	6
Stocks of Manufactured Fish Paste (1st July)	1,074	7	10
„ „ „ „ (30th June)	1,744	6	10
„ „ Sauce (1st July)	433	14	10
„ „ „ (30th June)	533	1	4
„ Bottles, Pots, Labels, etc., Paste (1st July)	270	18	8
„ „ „ „ „ (30th June)	414	17	6
„ „ „ „ Sauce (1st July)	344	13	6
„ „ „ „ „ (30th June)	270	9	–
Purchases of Raw Materials, Fish Paste	1,033	5	4
„ „ „ Sauce	815	–	4
„ Bottles, Pots, Labels, etc., Paste	647	8	10
„ „ „ „ Sauce	487	11	–
Wages, Fish Paste Dept.	1,046	17	2
„ Sauce Dept.	1,205	6	8
Manufacturing Expenses, Paste Dept.	113	7	4
„ „ Sauce „	396	15	4
Salaries	652	7	8
Advertising	7,239	9	–
Printing and Stationery	894	12	10
Carriage on Sales	653	15	4
Rent, Rates, and Taxes	1,331	13	–
Sundry Expenses	558	8	6

Sales of Fish Paste, 709,482 pots @ 4½d. per pot

„ Sauce, 123,276 bottles @ 1s. 3d. per bottle.

The undivided expenses are to be apportioned between the two departments according to the *number* of pots of Fish Paste or bottles of Sauce sold.

13. From the following particulars of the "Stablemere" Motor Car Works, Ltd., prepare departmental Trading Accounts and a General Profit and Loss Account for the year ended 31st December:—

	£	s.	d.
Fixtures and Fittings	151	7	6
Loose Plant and Tools	451	5	2
Sundry Debtors	5,850	8	10
Cars bought for re-sale	25,000	–	–
Carriage on Cars sold	230	9	–
Management Expenses	1,021	7	4
Profit and Loss Account (*Cr.* bal. 1st Jan.)	1,300	11	8
Bad Debts	100	7	2
Petrol, Oil, etc., used	1,251	12	10
Charged to Customers for Hire of Cars	811	5	–
Sales of Motor Cars	29,500	–	–
Charged to Customers for Repairs to Cars	1,901	7	4
Accessories (Tyres, Tubes, etc.) used	4,700	9	8
Hire Cars	1,301	11	10
Stock of Accessories (Tyres, Tubes, Petrol, Oil, etc.) at end of current year	751	5	4
Expenses of Hire Cars	450	12	6
Sales of Petrol, Oil, etc.	1,951	9	8
Garage Rents Received	180	19	4
Debenture Interest	250	–	–
Repairs to Plant, etc.	54	13	–
Sales of Accessories (Tyres, Tubes, etc.)	5,471	10	6
Wages in Yard	313	1	4
Cost of Repairs to Cars (Wages, Materials, etc.)	1,750	17	8
Bad Debts Reserve (1st Jan.)	240	–	–
Sundry Receipts (Washing Cars, Charging Batteries, etc.)	333	–	10

The following adjustments are necessary: Bad Debts Reserve, 5% Debtors; Depreciation: Loose Plant and Tools, 20%; Fixtures, etc., 5%; Hire Cars, 20%; the manager is entitled to a Commission of 5% of the net profit after charging this commission.

14. From the following Trial Balance of T. Thompson, Pawnbroker, prepare Departmental Trading Account and Profit and Loss Account for the year ended 31st December, and Balance Sheet as at that date:—

Trial Balance.	*Dr.* £	s.	d.	*Cr.* £	s.	d.
Fixtures and Fittings	627	14	2			
Stocks (1st Jan.)—						
Pledged Goods (at amount of Advances thereon)	5,127	2	11			
Goods for Re-sale (at cost)	2,065	10	5			
Capital Account (1st Jan.)				7,000	15	5
Drawing Account	350	–	–			
Pledged Goods Advances Account	13,720	14	6			
„ „ Redeemed Account				13,015	12	9
„ „ Interest Account				1,050	6	10
Sale of Tickets				157	10	3
Sales				2,369	15	7
Wages and Salaries	405	10	3			
Sundry Creditors				339	13	6
Rent, Rates, and Taxes	216	9	10			
Purchases (for re-sale)	657	16	8			
Sundry Expenses	238	12	6			
Cash in hand	158	5	4			
„ at Bank	365	17	9			
	£23,933	14	4	£23,933	14	4

During the year, Unredeemed Pledges to the amount of £1,756 13s. 4d. (sum advanced thereon) have been transferred from the Pledged Goods Account to the Goods for Re-sale Account. The Stock at 31st December was: Pledged Goods (at amount of Advances thereon), £4,215 15s. 9d.; Goods for Re-sale (at cost), £2,630 14s. 8d. Depreciate Fixtures at 5%, and allow Interest on Capital at 5%.

15. G. Greasley is in business as an Engine Dealer and Repairer. From the following particulars prepare Departmental Trading Accounts and Profit and Loss Account for the year ended 31st December:—

	£	s.	d.
Capital Account (1st Jan.)	5,165	14	9
Stock, Engine Dept. (1st Jan.)	3,316	11	2
„ Repairs Dept. (1st Jan.)	1,164	13	7
Purchases, Engine Dept.	8,507	10	6
„ Repairs „	5,275	11	8
Wages, Engine Dept.	2,657	13	4
„ Repairs „	3,608	15	5
Working Expenses, Engine Dept.	1,056	5	8
„ „ Repairs „	1,516	4	10
Amounts charged to Customers, Repairs Dept.	12,408	11	10
Sales, Engine Dept.	14,616	16	9
Bad Debts	47	15	4
Salaries	617	2	3
Rent, Rates, and Taxes	426	13	4
Gas and Electric Light	57	14	5
Insurance (Fire and Workmen's Compensation)	158	5	6
Office Furniture	227	13	10
„ Expenses	146	8	9
Discounts—*Credit* balance	41	17	8
Bad Debts Reserve (1st Jan.)	60	–	–

The Stocks on hand at 31st December were: Engine Dept., £3,450 16s. 4d.; Repairs Dept., £1,265 19s. 5d. Reserve £75 for Bad Debts. Allow Interest on Capital at 5%. Depreciate Office Furniture 5%.

16. P. Philcree is in business, trading as the Engineering Supplies Co., for the manufacture and sale of engineering sundries. From the following particulars prepare Trading and Profit and Loss Accounts showing the gross and net trading profits of each department, and also a General Profit and Loss Account showing the net profit:—

	£	s.	d.
Stock, Works Dept. (1st Jan.)	1,056	10	6
„ Retail „ („)	6,573	14	8
Purchases, Works Dept.	8,743	5	10
„ Retail „	32,656	18	9
Carriage, Works Dept.	620	13	4
„ Retail „	1,456	7	8
Wages, Works Dept.	7,426	19	5
„ Retail „	914	10	3
Sales, Works Dept.	21,486	15	2
„ Retail „	40,915	14	7
Machinery, Plant, and Tools (1st Jan.)	10,897	14	3
Office Salaries, Works Dept.	526	15	6
„ „ Retail „	507	6	6
„ Expenses, Works Dept.	206	4	11
„ „ Retail „	572	15	10
Rent, Rates, and Taxes, Works Dept.	463	17	8

	£	s.	d.
Rent, Rates, and Taxes Retail Dept.	325	10	6
Bad Debts Reserve, Works Dept. (1st Jan.)	225	10	–
„ „ „ Retail „ („)	225	10	–
„ „ Works Dept.	112	15	6
„ „ Retail „	116	16	11
Salary (P. Philcree)	1,000	–	–
Bank Interest Received	76	13	4
„ Charges	29	5	8
Income Tax paid	416	14	2
Interest on Investments, *less tax*	162	13	6

The Stocks on hand at 31st December were: Works Dept., £975 13s. 4d.; Retail Dept., £7,520 18s. 10d. The Machinery, Plant, and Tools were valued at £10,946 12s. 8d. Make a Bad Debt Reserve of £230 for each department, and apportion Philcree's salary equally between the two departments.

REVISION EXERCISE IX

1. Explain briefly the meaning of Book-keeping by Double Entry, and why preference should be given to that system over others. Explain also the difference between Personal and Impersonal Accounts.—(*London Chamber of Commerce.*)

2. Is there any difference between a Trading Account and a Profit and Loss Account, and from what accounts in the Ledger are they prepared? —(*London Chamber of Commerce.*)

3. Prepare a form of Cash Book suitable for a large public institution, such as a County Asylum or Hydropathic Institution, where the rule is imperative to pay everything by cheque, and pay into the Bank all receipts intact, and briefly state your reasons for suggesting the adoption of such a form of Cash Book.—(*London Chamber of Commerce.*)

4. Robinson, on 31st August, buys from Tuck & Co. 150 tons of coal at 7s. 6d. a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of 2½%. He pays 1s. 3d. a ton for carriage by rail and 9d. a ton for cartage. He sells the coal to a Sheffield manufacturing Company at 12s. 6d. a ton on 14th September, and draws a bill, at two months for the amount. The bill is dishonoured at maturity, but is immediately paid by the manufacturing Company upon demand being made to them. Draw the bill of exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10% on the original cost of the coal for establishment expenses.—(*London Chamber of Commerce.*)

5. In closing the books of Robert Sawyer you find the undermentioned items. How would you deal with these transactions when preparing the annual accounts for the year ended 31st December?

(1) Fire insurance premium (£50) paid on 30th June this year, covering the twelve months to 30th June next year.

(2) Salaries (£125) accrued due to A, B, and C, but not yet drawn by them.

(3) R. Robinson paid £100 in advance in full settlement for work which was being executed for him under a contract. The cost of the work completed up to 31st December amounted to £39, when it was estimated that half the contract had been completed.

(4) Patents account showed a debit balance of £557 7s. This amount consisted of Patent rights (six years to run) purchased for £550, and renewal fees for the current year, £7 7s.

(5) Three years ago Robert Sawyer bought a milling machine for £200, and depreciation, at the rate of 10% upon the diminishing balance has been written off each year; the same machine, however, can now be bought for £120 owing to improvements in manufacture.—(*London Chamber of Commerce.*)

6. The following is an abbreviated Statement, presented to Subscribers and Friends by the Management of an important public Charitable Institution, and bearing an Auditor's certificate.

FINANCIAL STATEMENT, *1st January to 31st December*

		£	£
To	Bankers' Balance	370	
,,	Receipts, Donations, etc.	4,629	
,,	"M" Building Fund	793	
,,	£470 Consols sold	460	
,,	Trust Funds:—		
	Receipts	8,828	
	Dividends	2,559	
	£2,449 Consols sold	2,418	
,,	Dividend on Consols and Turkish 4%	741	
By	Grants		4,740
,,	Salaries and General Charges		1,677
,,	£459 Consols bought		450
,,	Trust Funds:—		
	Grants		2,715
	£11,323 Consols bought		11,109
,,	Bankers' Balance		107
		£20,798	£20,798

There is no other Account published, but at the foot of the Statement, and independent thereof, and without the signature of the Auditor, there is a Note stating that there are Investments amounting respectively to £100,588 10s. 7d. and £20,254 6s. 2d., and that there are unpaid Grants amounting to £12,595.

Give your opinion as to this form of Account, and having regard to the attacks occasionally made in the "Press" upon the Accounts as published from time to time by certain charitable societies, state very briefly in what way *you* would have presented the Accounts had you been acting as the Official Accountant to the Institution.—(*London Chamber of Commerce.*

7. Consigned Goods value £750 to A. Archer, of Sydney. Paid Freight £54, and Insurance £30. Received an Advance of £250 from A. Archer. Received Account Sales from A. Archer showing that part of the goods had realised gross £800, and that his expenses and commission amounted to £85. The Stock unsold was valued at £250. Received bill at 1 month from A. Archer for amount due.

Make the necessary Journal and Cash Book entries for the above transactions, and show the Consignment Account in the Ledger.

8. MILDRED & MERRYWEATHER

(*a*) TRIAL BALANCE, 31*st December*

	£ s. d.	£ s. d.
J. C. Mildred, Capital as at 1st July		8,653 14 8
W. F. Merryweather, Capital as at 1st July		5,610 3 7
Land and Buildings as at 1st July	6,300 – –	
Machinery, Plant, and Utensils	6,250 8 2	
Office Furniture	130 – –	
Executors of Henry Watson, Loan on Mortgage 4%		4,000 – –
R. A. Merryweather, Bonus Account as at 1st July		329 10 –
J. C. Mildred, Drawing Account	378 4 10	
W. F. Merryweather, Drawing Account	229 3 1	
R. A. Merryweather, Drawing Account	141 6 7	
Materials Purchased	14,187 14 9	
Wages	4,544 6 8	
Office Salaries	189 11 3	
Travellers' Salaries	432 9 6	
Rates and Insurance	121 15 10	
Discount Allowed	1,064 14 2	
Repairs and Renewals of Machinery	248 3 1	
Sales		20,465 7 11
Royalty (on manufacturing process)	149 1 2	
Gas and Water Account	35 13 7	
Rent of Stabling let off		41 2 9
Travellers' Commission	123 4 2	
Bad Debt Account		138 9 1
Travelling Expenses	269 13 1	
Bank Charges	68 9 3	
Discount Received		387 6 8
Returns Inwards	143 5 7	
Creditors		1,250 10 –
Trade Expenses	179 10 5	
Trading Account—Stock of Materials, 1st July	3,611 17 6	
Debtors	2,700 2 11	
Bank		328 16 3
Petty Cash Balance	5 – 1	
Bills Payable		338 14 9
Interest Account	40 – –	
	£41,543 15 8	£41,543 15 8

Stock of Materials, 31st December, £7,032 11s. 9d.

J. C. Mildred and W. F. Merryweather are partners, and divide profits and losses equally after being credited with Interest on Capital at 5% per annum.

R. A. Merryweather is the Factory Manager, and is entitled to a bonus of 15% of the profit after allowing for all Interest. He is also entitled to Interest at 5% per annum on the amount of his Bonus left in the business. Interest on all drawings is ignored.

Land and Buildings Account, Depreciation 1% per annum.

Machinery, Plant, and Utensils Account includes additions this half-year £179 8s. 2d.; write off for Depreciation 10% per annum on balance at 1st July.

Office Furniture Account. This Account has been regularly depreciated

each half-year at 10% per annum. This half-year it has also been reduced on 30th September by the sale of a Typewriter for £5, which was purchased on 30th June last year for £25; include the loss on this transaction with this half-year's depreciation.

Interest on Mortgage owing from 1st October (ignore Income Tax).

W. F. Merryweather requires £100 transferring from his Account to the credit of R. A. Merryweather as a present at Christmas.

Wages include £12 13s. 6d. paid to an injured workman, and recoverable from the Insurance Company.

Rates owing, £75. Insurance prepaid, £30.

Discount allowed should be shown in Trading Account as a deduction from Sales; Reserve 6¼% of the Debtors.

Gas and Water. The note from the Corporation received 2nd February shows the gas for the previous half-year ending 31st December is £132 11s. 8d.; water for half-year ending 30th June next (payable in advance) is £33 6s. 8d. The Corporation allows 5% discount on this note.

J. C. Mildred should be charged 10s. per week for the half-year for use of Stabling belonging to the business.

Bad Debt Account, Reserve, £200.

Discount received should be shown in Trading Account as a deduction from Materials purchased; Reserve 2½% of Creditors.

Prepare a Trading Account showing the Gross Profit; the profit before charging Partners' Interest on Capital; and the net Profit.

Show the Balance Sheet, 31st December, and prepare copies of the Partners' Capital Accounts for the half-year.

(*b*) Referring to the previous question, state what percentage the following items in the Trading Account bears to the net Sales:—

Materials consumed (including Royalty).
Wages.
Gross Profit.
Net Expenses before charging Partners' Interest.
Net Profit (after Bonus).

—(*West Riding of Yorkshire.*)

CHAPTER X

PARTNERSHIP ACCOUNTS

Definition.—By the Partnership Act, 1890, partnership is defined as "the relation which subsists between persons carrying on a business in common with a view of profit."

Relationships which are not Partnerships.—The relation between members of any company or association which is:—

(*a*) Registered as a company under the Companies Act, 1862, (now 1908, etc.), or any other Act of Parliament for the time being in force and relating to the registration of joint stock companies; or

(*b*) Formed or incorporated by or in pursuance of any other Act of Parliament or letters patent, or Royal Charter; or

(*c*) A company engaged in working mines within and subject to the jurisdiction of the Stannaries;

is not a partnership within the meaning of the Act.

What constitutes a Partnership?—In determining whether a partnership does or does not exist, regard must be had to the following rules:—

(1) Joint tenancy, tenancy in common, joint property, common property or part ownership does not of itself create a partnership as to anything so held or owned, whether the tenants or owners do or do not share any profits made by the use thereof.

(2) The sharing of gross returns does not of itself create a partnership, whether the persons sharing such returns have or have not a joint or common right or interest in any property from which or from the use of which the returns are derived.

(3) The receipt by a person of a share of the profits of a business is *primâ facie* evidence that he is a partner in the business, but the receipt of such a share, or of a payment contingent on or varying with the profits of a business, does not of itself make him a partner in the business; and in particular:—

(*a*) The receipt by a person of a debt or other liquidated amount by instalments or otherwise out of the accruing profits of a business does not of itself make him a partner in the business or liable as such.

(*b*) A contract for the remuneration of a servant or agent of a person engaged in a business by a share of the profits of the business does not of itself make the servant or agent a partner in the business or liable as such.

(*c*) A person being the widow or child of a deceased partner, and receiving by way of annuity a portion of the profits made in the business in which the deceased person was a partner, is not by reason only of such receipt a partner in the business or liable as such.

(*d*) The advance of money by way of loan to a person engaged or about to engage in any business on a contract with that person that the lender shall receive a rate of interest varying with the profits, or shall receive a share of the profits arising from carrying on the business, does not of itself make the lender a partner with the person or persons carrying on the business or liable as such; provided that the contract is in writing, and signed by or on behalf of all the parties thereto.

(*e*) A person receiving by way of annuity or otherwise a portion of the profits of a business in consideration of the sale by him of the goodwill of the business is not by reason only of such receipt a partner in the business or liable as such.

Prohibition of Large Partnerships.—No partnership consisting of more than twenty persons can be formed to carry on any business for gain without being registered as a company under the Companies Acts, 1908 to 1917. In the case of a banking business the number must not exceed ten.

Firm and Firm-Name.—Persons who have entered into partnership with one another are, for the purposes of the Partnership Act, 1890, called collectively a firm, and the name under which their business is carried on is called the firm-name.

By the Registration of Business Names Act, 1916, every firm having a place of business in the United Kingdom, and carrying on business under a name *which does not consist of the true surnames of all the partners*, must be registered. Particulars must be furnished of the business name, general nature of the business, principal place of business; the present Christian name and surname, any former Christian name and surname, nationality, and if that nationality is not the nationality of origin, the nationality of origin, usual residence, and the other business occupation (if any), of each partner. The names of the partners must also appear on the note paper, catalogues, show cards, etc., issued by the firm.

Difference between an Ordinary Partnership and a Joint Stock Company.—The following points should specially be noted :—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can only proceed against the property of the company in case of necessity, and, ordinarily, there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members of the company, and without affecting its existence; this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds; in a partnership, each member is liable jointly for the whole of the debts of the firm.

(5) In a partnership the number of members must not exceed twenty, or, in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, nor less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm; but in a company, the rights of management are restricted to a special body of shareholders called directors.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited company, the objects of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses, or altered by mutual agreement. The capital of a company is fixed by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

Kinds of Partners.—There are different kinds of partners, viz.:—

Acting or Active Partner, one who actually takes part in the business; **Dormant or Sleeping Partner,** one who has capital in the business, but is not actually engaged in it; **Limited Partner,** one who is a partner under the Limited Partnership Act; **Quasi Partner,** one who has retired from active participation in the business, but has left his capital in it as a loan, receiving interest on it varying with the profits, or who (although not a partner) incurs liabilities as if he were a partner by reason of the fact that he holds himself out or allows himself to be represented as such.

Power of a Partner to bind the Firm.—Every partner is an agent of the firm and his other partners for the purpose of the business of the partnership; and the acts of every partner who does any act for carrying on in the usual way business of the kind carried on by the firm of which he is a member bind the firm and his partners, unless the partner so acting has in fact no authority to act for the firm in the particular matter, and the person with whom he is dealing either knows that he has no authority, or does not know or believe him to be a partner.

Partner using credit of Firm for private purposes.—Where one partner pledges the credit of the firm for a purpose apparently not connected with the firm's ordinary course of business, the firm is not bound, unless he is in fact specially authorised by the other partners.

Liability of Partners.—Every partner in a firm is liable jointly with the other partners for all debts and obligations of the firm incurred while he is a partner; and after his death his estate is also severally liable in a due course of administration for such debts and obligations, so far as they remain unsatisfied, but subject to the prior payment of his separate debts.

Liability of Firm.—(*a*) Where one partner acting within the scope of his apparent authority receives the money or property of a third person and misapplies it; and (*b*) where a firm in the course of its business receives money or property of a third person, and the money or property so received is misapplied by one or more of the partners while it is in the custody of the firm; the firm is liable to make good the loss.

Liabilities of Incoming and Outgoing Partners.—By section 17 of the Act:—

(1) A person who is admitted as a partner into an existing firm does not

thereby become liable to the creditors of the firm for anything done before he became a partner.

(2) A partner who retires from a firm does not thereby cease to be liable for partnership debts or obligations incurred before his retirement.

(3) A retiring partner may be discharged from any existing liabilities, by an agreement to that effect between himself and the members of the firm as newly constituted and the creditors, and this agreement may be either express or inferred as a fact from the course of dealing between the creditors and the firm as newly constituted.

Variation of Terms of Partnership.—The mutual rights and duties of partners, whether ascertained by agreement or defined by the Partnership Act, may be varied by the consent of all the partners, and such consent may be either express or inferred from a course of dealing.

Partnership Property.—By section 20 of the Act :—

All property and rights and interests in property originally brought into the partnership stock or acquired, whether by purchase or otherwise, on account of the firm, or for the purposes and in the course of the partnership business, are called in this Act partnership property, and must be held and applied by the partners exclusively for the purposes of the partnership and in accordance with the partnership agreement.

Unless the contrary intention appears, property bought with money belonging to the firm is deemed to have been bought on account of the firm.

Rights and Duties of Partners.—By section 24 of the Act, the interests of partners in the partnership property, and their rights and duties in relation to the partnership shall be determined, subject to any agreement express or implied between the partners, by the following rules :—

(1) All the partners are entitled to share equally in the capital and profits of the business, and must contribute equally towards the losses whether of capital or otherwise sustained by the firm.

(2) The firm must indemnify every partner in respect of payments made and personal liabilities incurred by him :—

(*a*) in the ordinary and proper conduct of the business of the firm ; or,

(*b*) in or about anything necessarily done for the preservation of the business or property of the firm.

(3) A partner making, for the purpose of the partnership, any actual payment or advance beyond the amount of capital which he has agreed to subscribe, is entitled to interest at the rate of 5 per cent. per annum from the date of the payment or advance.

(4) A partner is not entitled, before the ascertainment of profits, to interest on the capital subscribed by him.

(5) Every partner may take part in the management of the partnership business.

(6) No partner shall be entitled to remuneration for acting in the partnership business.

(7) No person may be introduced as a partner without the consent of all existing partners.

(8) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the partners, but no change may be made in the nature of the partnership business without the consent of all existing partners.

(9) The partnership books are to be kept at the place of business of the partnership (or the principal place, if there is more than one), and every partner may, when he thinks fit, have access to and inspect and copy any of them.

Expulsion of Partner.—No majority of the partners can expel any partner unless a power to do so has been conferred by express agreement between the partners.

Duration of Partnership at Will.—Where no fixed term has been agreed upon for the duration of the partnership, any partner may determine the partnership at any time on giving notice of his intention so to do to all the other partners. Where the partnership has originally been constituted by deed, a notice in writing, signed by the partner giving it, is sufficient.

Where a partnership entered into for a fixed term is continued after the term has expired, and without any express new agreement, the rights and duties of the partners remain the same as they were at the expiration of the term, so far as is consistent with the incidents of a partnership at will. A continuance of the business by the partners or such of them as habitually acted therein during the term, without any settlement or liquidation of the partnership affairs, is presumed to be a continuance of the partnership.

Duties of Partners towards the Firm.—Partners are bound to render true accounts and full information of all things affecting the partnership to any partner or his legal representatives.

Every partner must account to the firm for any benefit derived by him without the consent of the other partners from any transaction concerning the partnership, or from any use by him of the partnership property, name, or business connection.

If a partner, without the consent of the other partners, carries on any business of the same nature as, and competing with, that of the firm, he must account for and pay over to the firm all profits made by him in that business.

Partnership Deed.—There may be, and often are, "partnerships at will" without the existence of any deed or written agreement. Owing to the conflicting legal interpretations of the Partnership Act, however, a deed should be drawn up and the following matters dealt with specifically :—

(1) The amount of capital each partner is to contribute, and whether the amount is to be fixed or not.

(2) How profits and losses, including Capital profits and losses, are to be shared.

(3) The amount each partner is to be allowed to draw.

(4) Whether interest is to be allowed on Capital and charged on Drawings, and at what rate.

(5) Whether drawings, profits and losses, and interest are to be dealt with in separate Current Accounts, or merged finally into the Capital Accounts.

(6) Whether the balances of the partners' Current Accounts are to be charged or credited with interest, and at what rate.

(7) That a Profit and Loss Account and Balance Sheet be drawn up each

year, and audited by a professional accountant; and that such Balance Sheets be signed by all the partners and be binding on them, unless a manifest error is discovered within six months afterwards.

(8) In the case of Policies of Survivorship Insurance being taken out, how the premiums are to be dealt with, and how the Policy Money is to be divided when received.

(9) The method of arriving at the amount of Goodwill in the case of the death or retirement of any of the partners.

(10) The method of arriving at the amount payable on the death or retirement of a partner—whether he is to be entitled to his capital, as per the last Balance Sheet, plus a higher rate of interest to date of death or retirement in lieu of profits, or whether fresh accounts are to be prepared up to date of death or retirement, and whether the partnership assets are to be re-valued for this purpose.

(11) That in the event of the death of a partner, his capital should remain in the business as a loan bearing interest, and be repayable by easy instalments, so as to prevent the business being crippled by a large withdrawal of funds.

Fixed Capital Accounts.—In practice it is usual for the amounts of the partners' capitals to be fixed by the partnership deed. The Capital Accounts, therefore, remain at the same figure during the partnership. Partners' salaries, profits, and interest on capital are not shown in the Capital Accounts but in separate Current or Drawing Accounts, the balances of which are carried to the Balance Sheet, and in some cases bear interest. A distinction is thus made and maintained between original capital and undrawn profits. The difference between the two methods can easily be seen from the example on opposite page, which represents the liabilities side of a Balance Sheet drawn up both ways.

Partner's Advances.—Any further sums of money advanced by a partner to the firm will be by way of *loan* rather than *capital*, inasmuch as partners' loans have priority of repayment over partners' capital in the event of a dissolution. The interest on such loans, unless paid in cash, should therefore be credited to the Partner's Loan Account or Current Account, and not to his Capital Account.

Partner's Salaries.—Where some of the partners devote the whole of their time to the business while others do not, it is usual to allow the former a salary before ascertaining the net profit. The practice also obtains where there are junior partners who, having little or no capital in the firm and taking only a small share of the profits, would otherwise derive insufficient remuneration from the business for their services to it. The salary is sometimes drawn out in cash, and sometimes credited to the Partner's Capital Account, according to the agreement.

Interest on Capital.—In order to adjust the rights of partners, as between themselves, it is usual to allow interest on partners' capitals. Where partners share equally in the profits but have unequal capitals, the partner with the smaller capital would otherwise get an advantage over the other; and where the partners

(1) FIXED CAPITAL METHOD.

Liabilities.						
Bills Payable				1,656	2	11
Sundry Creditors				3,074	3	10
Outstanding Expenses				85	16	9
Loan A/c, Potts				2,000	–	–
Current A/c, Potts—						
Share of Profit	1,376	9	10			
Interest on Capital	350	–	–			
Interest on Loan	100	–	–			
	1,826	9	10			
Less Drawings	1,550	–	–			
				276	9	10
Current A/c, Kemp—						
Share of Profit	864	3	11			
Interest on Capital	150	–	–			
	1,014	3	11			
Less Drawings	850	–	–			
				164	3	11
Capital Accounts—						
Potts	7,000	–	–			
Kemp	3,000	–	–			
				10,000	–	–
				17,256	17	3

(2) ALTERNATIVE METHOD.

Liabilities.						
Bills Payable						1,656	2	11
Sundry Creditors						3,074	3	10
Outstanding Expenses						85	16	9
Loan A/c, Potts				2,000	–	–		
Interest accrued				100	–	–		
						2,100	–	–
Capital Accounts—								
Potts, 1st Jan.				7,000	–	–		
Add Interest				350	–	–		
,, Share of Profit				1,376	9	10		
				8,726	9	10		
Less Drawings				1,550	–	–		
						7,176	9	10
Kemp, 1st Jan.				3,000	–	–		
Add Interest				150	–	–		
,, Share of Profit				864	3	11		
				4,014	3	11		
Less Drawings				850	–	–		
						3,164	3	11
						17,256	17	3

have equal capitals but share profits unequally, the partner who takes the larger share of profits would otherwise gain at the expense of the other. The interest is debited to Profit and Loss Account and credited to the Capital Accounts or Current Accounts as the case may be.

Interest on Drawings.—In many cases interest is not chargeable on drawings, the reason being that the drawings are not out of *capital* but on account of *profits* that are accruing. Where, however, partners withdraw capital sums interest is charged. In order to adjust the rights of the partners *inter se*, that is, to prevent one partner getting any advantage over the others, it is also necessary to charge interest on drawings where partners, who are equal as regards capital and share of profits, draw out *unequal* sums. The interest is debited, by means of a journal entry, to the Drawing Account and credited to an Interest on Capital Account.

Drawing Account.—The following is an example *without interest* :—

Dr. R. RUMLEY.—DRAWING ACCOUNT. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Mar. 1	To Cash	60	–	–	Dec. 31	By Transfer to Capital A/c	240	–	–
June 1	„ „	50	–	–					
Sept. 1	„ „	75	–	–					
Dec. 1	„ „	55	–	–					
		240	–	–			240	–	–

The following is an example *with interest* :—

Dr. R. RUMLEY.—DRAWING ACCOUNT. *Cr.*

19—		Interest. £	s.	d.	£	s.	d.	19—		£	s.	d.
Mar. 1	To Cash	2	10	–	60	–	–	Dec. 31	By Transfer to Capital A/c	245	8	9
June 1	„ „	1	9	2	50	–	–					
Sept. 1	„ „	1	5	–	75	–	–					
Dec. 1	„ „	4	7		55	–	–					
31	„ Interest				5	8	9					
					245	8	9			245	8	9

Interest on capital, and share of profits, are sometimes shown in the Drawing Account instead of in the Capital Account. The balance of the Drawing Account is transferred to the Capital Account, unless the latter is a fixed amount ; in such cases it appears separately on the Balance Sheet, and the Account is more commonly called a Current Account. The following is an example *with interest on capital, and share of profit.*

Dr. R. RUMLEY.—DRAWING ACCOUNT. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Mar. 31	To Cash	120	–	–	Dec. 31	By Interest on Capital	250	–	–
June 30	„ „	80	–	–					
Sept. 30	„ „	65	–	–		„ „ Share of Profit	365	16	6
Dec. 31	„ „	130	–	–					
„	„ Balance transferred to Capital A/c	220	16	6					
		615	16	6			615	16	6

Goodwill.—This term has received various legal definitions, *e.g.*, "Nothing more than the probability that the old customers will resort to the old place"; "The benefit arising from connection and reputation." Looked at from another point of view, it should represent the value of the ability of a business to make surplus profit after charging interest on the capital employed, and allowing for a management salary in case the proprietor did not wish to manage it himself. The goodwill may arise from the reputation of the article sold, the personality of the proprietor, monopoly, patents, trade-marks, favourable locality, etc. Goodwill may have to be taken into consideration on the death of an existing partner or the admission of a new one, and also on the sale of the business. For the purpose of sale, the value of the goodwill is usually taken to be from one to five years' purchase of the average net profits for a period of years, though in retail business it is often based on the turnover. The value of it is governed by so many circumstances that no general rule can be laid down.

Goodwill and Incoming Partners.—It is usual to charge an incoming partner a premium for goodwill. The method of treating this in the books of account varies considerably. Sometimes a Goodwill Account is raised, the amount being credited to the old partners in the proportion in which they share profits and losses. In some cases the premium is paid into the business and is drawn out again in cash by the partners entitled to it; in other cases the premium paid in by the new partner is left in the business, being credited in the proper proportions to the old partners' Capital Accounts. Sometimes the premium is paid to the old partners direct by means of a separate cheque, and, in these instances, it does not appear in the partnership books at all. It is to the advantage of the incoming partner that the payment of a premium for goodwill should be shown in the partnership books, and thus ensure there being a permanent record of it, in order to facilitate matters if he should retire and require payment to him of a similar sum. It is also usually to the advantage of the new partner that the premium he pays on admission should not be drawn out again, but should be left in the business, so that the latter shall derive some benefit from it.

Example 1.—J. Rowell and M. Collado are in partnership sharing profits and losses in the proportions of two-thirds and one-third respectively. They agree to admit C. Constantinides as a partner with a fifth share on condition that he brings in £2,000 capital, and that the old partners are credited with their respective shares of the goodwill estimated at £1,200. Rowell and Collado, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

JOURNAL.				Dr.			Cr.		
	Goodwill			1,200	–	–			
	To J. Rowell $\frac{2}{3}$ . . .						800	–	–
	,, M. Collado $\frac{1}{3}$ . . .						400	–	–
	For their respective shares of Goodwill.								

Dr.	CASH BOOK.			Cr.
To C. Constantinides (Capital A/c)	2,000	–	–	

As Constantinides takes one-fifth of the profits, four-fifths will remain, and the partners' shares will be as follows :—

Rowell will receive $\frac{2}{3}$ of $\frac{4}{5}$ or $\frac{8}{15}$ths ;
Collado ,, ,, $\frac{1}{3}$ of $\frac{4}{5}$ or $\frac{4}{15}$ths ;
Constantinides ,, ,, $\frac{1}{5}$ or $\frac{3}{15}$ths.

Example 2.—J. Judge and K. King are in partnership, sharing profits and losses in the proportions of three-fourths and one-fourth respectively. They agree to admit K. Kerry as a partner on condition that he brings into the business £1,500 capital and pays them a premium of £300 for a fifth share in the profits. Make the necessary entries in the books.

Dr.	CASH BOOK.			Cr.
To K. Kerry (Capital A/c)	1,500	–	–	

As only £1,500 was brought into the business, a separate cheque would be handed to Judge and King for the premium.

Example 3.—O. Oldham and B. Barlass are in partnership sharing profits and losses three-fifths and two-fifths respectively. They agree to admit W. Wheater as a partner on condition that he brings into the business £2,500, £500 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

Dr.	CASH BOOK.			Cr.			
To W. Wheater (Capital A/c) .	2,000	–	–	By O. Oldham, Capital A/c (Share of Premium withdrawn) . . .	300	–	–
,, O. Oldham, Capital A/c ($\frac{3}{5}$ of Wheater's Premium)	300	–	–	,, B. Barlass, Capital A/c (Share of Premium withdrawn)	200	–	–
,, B. Barlass Capital A/c ($\frac{2}{5}$ of Wheater's Premium)	200	–	–				

In this case the money brought in by Wheater must be split up, the capital being separated from the premium, which belongs to the old partners, and must be credited to their Capital Accounts in the same proportion in which they are entitled to share profits.

Example 4.—A. Appleton and P. Pearson are in partnership, sharing profits and losses three-fourths and one-fourth respectively. They agree to admit C. Cherry as a partner on condition that he brings in £2,400, £400 of which is to be regarded as premium for goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

Dr. CASH BOOK. *Cr.*

To C. Cherry, Capital A/c	2,000	–	–				
„ A. Appleton „ „	300	–	–				
„ P. Pearson „ „	100	–	–				

Example 5.—C. Coward agrees to admit F. Glen into partnership on the following terms:—(*a*) That Glen brings £2,650 Capital in Cash into the business; (*b*) that £650 is to be paid out to C. Coward and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

Dr. CASH BOOK. *Cr.*

To F. Glen (Capital A/c)	2,650	–	–	By Goodwill A/c (amount paid out to C. Coward by way of premium)	650	–	–

Adjustment of Assets on admission of Partner, Amalgamation of Businesses.—It often happens, when a new partner is admitted, that the assets of the business are re-valued, any appreciation or depreciation being adjusted in the Capital Accounts of the old partners. A new partner may also bring into the partnership other assets besides Cash, namely, Book Debts, Plant, etc., and the Goodwill of his own connection.

Example.—V. Evans and T. Taylor are partners in a coal business, sharing profits and losses equally. On 31st Dec., their Capitals stood at £3,500 and £3,000 respectively. The firm's assets and liabilities on the same date were as follows:—Coal Trucks, £756; Furniture and Fittings, £260; Sundry Creditors, £1,140; Cash at Bank, £1,325; Carts, Plant and Horses £840; Bills Payable, £1,068; Sundry Debtors, £4,740; Cash in hand, £52; and Stock of Coal, £735. They agree to take into partnership P. Primrose, a colliery agent, as and from 1st Jan., 19. ., on the following terms:—Profits and losses to be shared, Evans two-fifths, Taylor two-fifths, and Primrose one-fifth. Primrose is to bring into the business Sundry Debtors amounting to £720 (less a Reserve of 5 % for Bad Debts), and the Goodwill of his connection estimated at £400. His Capital in the new business is to be £1,800, the balance of which he is to pay in Cash on 1st. Jan., 19 . . . It was also agreed between them that the following adjustments should be made as regards the business of Evans and Taylor:—Coal Trucks to be taken at

£955, and Carts, Plant and Horses at £950, the values placed on them by a public valuer; a Bad Debts Reserve of 5 % of the Sundry Debtors to be created; the Goodwill to be valued at £1,250; and Evans to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Taylor's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the new firm prior to commencing business.

In Evans and Taylor's Books

JOURNAL.

19—		Dr.			Cr.		
Jan. 1	Sundry Debtors	720	–	–			
	Goodwill	400	–	–			
	To Bad Debts Reserve				36	–	–
	,, P. Primrose (Capital A/c)				1,084	–	–
	For assets brought in by P. Primrose.						
1	Coal Trucks	199	–	–			
	Carts, Plant, and Horses	110	–	–			
	Goodwill	1,250	–	–			
	To Bad Debts Reserve				237	–	–
	,, V. Evans (Capital A/c)				661	–	–
	,, T. Taylor (Capital A/c)				661	–	–
	For net gain to Evans and Taylor on the revaluation of their assets.						

Dr. CASH BOOK. *Cr.*

To Balance	1,325	–	–	By V. Evans (Capital A/c) (amount withdrawn by him to reduce his Capital, £4,161, to the same amount as T. Taylor, £3,661)	500	–	
,, P. Primrose (Capital A/c) (amount paid in by him to raise his Capital from £1,084 to £1,800)	716	–	–				

BALANCE SHEET AS AT 1ST JAN., 19—

Liabilities.				*Assets.*			
Bills Payable	1,068	–	–	Cash in hand	52	–	–
Sundry Creditors	1,140	–	–	Cash at Bank	1,541	–	–
Capital Accounts :—				Debtors £5,460			
V. Evans	3,661	–	–	*Less* Reserve 273			
T. Taylor	3,661	–	–		5,187	–	–
P. Primrose	1,800	–	–	Stock of Coal	735	–	–
				Coal Trucks	955	–	–
				Carts, Horses, and Plant	950	–	–
				Furniture and Fittings	260	–	–
				Goodwill	1,650	–	–
	11,330	–	–		11,330	–	–

Guarantee of Assets and Liabilities—Preferential Claim on First Year's Profits.—It often happens and is fair that an incoming

partner requires the assets and liabilities, as shown by the firm's Balance Sheet, to be guaranteed, in order to protect himself against errors that may subsequently be discovered. Should a liability have been omitted or under-estimated, the loss arising from it will not then be borne by the new partnership, but solely by the old partners. Should discounts and bad debts arise in connection with the debtors in excess of what has been provided, the new partnership will not share in such losses, which will be debited to the old partners' Capital Accounts, and not to the firm's Profit and Loss Account.

On the other hand, there are sometimes profits accruing on work in progress, or orders in hand, which the old partners justly require to be reserved entirely for themselves. Such profits will be credited, in their proper proportions, to the Capital Accounts of the old partners, and not to the Profit and Loss Account of the firm. In some cases, however, an arrangement is made whereby the old partners become, in respect of such accruing gains, entitled to a preferential claim of a fixed amount out of the first year's profits.

Goodwill and Outgoing Partners.—On the death or retirement of a partner his share of the Goodwill has to be valued, and the amount arrived at according to the terms of the partnership deed; or if no arrangement has been made, then the Goodwill of the firm is valued, and of this amount a proportion, the same as that in which he shares profits, is then credited to the said partner's Capital Account. Instead of the partner's share of the Goodwill, an annuity, or a percentage of the profits for a certain number of years, is sometimes paid to the deceased partner's representatives.

Policies of Survivorship Assurance.—Partners often assure themselves either jointly or severally as a means of obtaining the necessary cash to pay out a deceased partner's share of the Capital and Goodwill. This prevents any financial difficulties when such a necessity arises. The premiums paid are debited to Profit and Loss as a business expense, and on the death of a partner, the cash received for the policy is debited in the Cash Book and credited to the partners' Capital Accounts (including the account of the deceased partner), in the same proportion as they share profits. The cash is then in hand with which to make the required payment. If desired, a Policy Account may be opened, and dealt with in a similar way to the Insurance Policy Method of depreciation.

Example.—A. Ashton and B. Beeching are in partnership, sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £300, which is debited to the firm's Profit and Loss Account each December. Beeching dies on the last day of June, 19... The partnership deed provides

that his representatives are to receive his Capital, as per the last Balance Sheet, plus interest at 5 % per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive as his share of the Goodwill an amount estimated at two years' purchase of his average net profits of the last three years, before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,420, £2,800, and £2,310 respectively. Beeching's Capital, as per last Balance Sheet was £2,620, and his Drawings to date of death amount to £725. Make the necessary adjustments and draw up Beeching's Account, showing the amount payable to his legal representatives.

The Goodwill is calculated thus :—

Average profit for the last three years before charging insurance premiums = (£2,720 + £3,100 + £2,610 ÷ 3) = (£8,430 ÷ 3) = £2,810.

Total Goodwill on basis of two years' purchase of the average net profits = (£2,810 × 2) = £5,620.

Beeching's share of Goodwill = $\frac{2}{5}$ of £5,620 = £2,248.

Dr. CASH BOOK. *Cr.*

To Assurance Policy— A. Ashton (Capital A/c) . £4,800 B. Beeching (Capital A/c) . . £3,200	8,000	–	–				

Dr. B. BEECHING (DECEASED). *Cr.*

19—					19—			
June 30	To Drawings .	725	–	–	Jan. 1	By Balance .	2,620	–	
"	" Balance c/d .	7,870	10	–	June 30	" Interest on above, 6 mos. @ 5% p.a. .	65	10	–
					30	" Profits for 6 mos. ½ of (⅔ of £2,310).	462	–	–
					30	" Share of Goodwill .	2,248	–	–
					"	" Cash (Share of Assurance Policy)	3,200	–	–
		8,595	10	–			8,595	10	–
					June 30	By Balance b/d .	7,870	10	–

Goodwill on Sale of a Partnership Business.—When a partnership business is sold as a going concern, the amount obtained for the Goodwill will be a profit, to be divided among the partners in the same proportion as they share profits on trading.

Repayment of Outgoing Partner's Share by Instalments.—On the death or retirement of a partner, his share of the Capital and

Goodwill may, instead of being paid out immediately to his representatives, be treated as a Loan, bearing interest, and repayable by fixed annual instalments.

Example.—Assume in the previous example that B. Beeching's share of Capital, Profits, and Goodwill, viz., £7,870 10s., is payable by annual instalments of £1,500, interest at 5 % per annum being allowed on the outstanding balance. Show the Ledger Account in the firm's books.

Dr. B. BEECHING (DECEASED) LOAN ACCOUNT. *Cr.*

Year.					Year.				
1	To Cash (6 mos.)	750	–	–	1	By Balance	7,870	10	–
	„ Balance c/d	7,317	5	3		„ Interest, 6 mos.	196	15	3
		8,067	5	3			8,067	5	3
2	To Cash	1,500	–	–	2	By Balance b/d	7,317	5	3
	„ Balance c/d	6,183	2	6		„ Interest, 1 year	365	17	3
		7,683	2	6			7,683	2	6
3	To Cash	1,500	–	–	3	By Balance b/d	6,183	2	6
	„ Balance c/d	4,992	5	7		„ Interest, 1 year	309	3	1
		6,492	5	7			6,492	5	7
4	To Cash	1,500	–	–	4	By Balance b/d	4,992	5	7
	„ Balance c/d	3,741	17	10		„ Interest, 1 year	249	12	3
		5,241	17	10			5,241	17	10
5	To Cash	1,500	–	–	5	By Balance b/d	3,741	17	10
	„ Balance c/d	2,428	19	9		„ Interest, 1 year	187	1	11
		3,928	19	9			3,928	19	9
6	To Cash	1,500	–	–	6	By Balance b/d	2,428	19	9
	„ Balance c/d	1,050	8	9		„ Interest, 1 year	121	9	–
		2,550	8	9			2,550	8	9
7	To Cash	1,102	19	2	7	By Balance b/d	1,050	8	9
						„ Interest, 1 year	52	10	5
		1,102	19	2			1,102	19	2

Repayment of Outgoing Partner's Share with Interest from date of Realisation of Assets.—Although, by law, interest ceases at the date of dissolution, yet it frequently happens that the continuing partner agrees to pay the outgoing partner his share by instalments with interest as and from the date of realisation of the assets. In some cases the average date is ascertained, and interest calculated from this date. The account then takes the form of an Account Current.

Example.—M. Lowther and A. Borchardt are in partnership, sharing profits and losses equally. Lowther agrees to buy out Borchardt, and the position of affairs on this date is as follows :—

BALANCE SHEET AS AT 1ST JAN., 19—

Liabilities.				*Assets.*			
Sundry Creditors	1,270	–	–	Sundry Debtors	4,850	–	–
Capital Accounts—				Office Furniture	260	–	–
M. Lowther	3,090	–	–	Cash	1,340	–	–
A. Borchardt	2,090	–	–				
	6,450	–	–		6,450	–	–

Lowther is to take over the Office Furniture at £200, to allow Borchardt £540 for his share of the Goodwill, and to pay him his proportion as and when realised, interest to be taken into account at 5 % per annum. A loss of £150 is sustained on the Sundry Debtors, and a discount of £30 obtained from the Creditors. The latter were paid at an average date of *four* months, and the Debtors were realised at an average date of *eight* months from the date of dissolution. Lowther paid Borchardt £550 on 1st March, £550 on 1st June, £550 on 1st Sept., and the balance on 31st Dec. Draw up the Account Current between Lowther and Borchardt, and show the final payment made to Borchardt on 31st Dec.

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Bad Debts (loss)	150	–	–	Dec. 31	By Discount on Creditors (gain)	30	–	–
,,	,, Furniture (loss)	60	–	–	,,	,, Capital A/cs (net loss)—			
						Lowther, ½ £90			
						Borchardt, ½ £90			
							180	–	–
		210	–	–			210	–	–

ADJUSTED BALANCE SHEET.—31ST DEC., 19—

Liabilities.				*Assets.*			
Creditors	1,240	–	–	Cash	1,340	–	–
Capital A/cs :—				Debtors	4,700	–	–
M. Lowther	3,000	–	–	Office Furniture	200	–	–
A. Borchardt	2,000	–	–				
	6,240	–	–		6,240	–	–

Although Lowther and Borchardt share profits and losses, including profits and losses on realisation of the assets, *equally*, yet the actual assets themselves, as per the Balance Sheet, belong to the partners in the proportion that their Capitals bear to the total capital, three-fifths and two-fifths respectively

A. BORCHARDT IN ACCOUNT CURRENT WITH M. LOWTHER

Dr. 31st December, 19— *Cr.*

Date.	Item.	Amount.	Days.	Products.	Date.	Item.	Amount.	Days.	Products.
					19—				
Mar. 1	To Cash	550 – –	305	167,750	Jan. 1	By Office Furniture (⅔ of £200)	80 – –	364	29,120
May 1	,, Sundry Crs. (⅔ of £1,240)	496 – –	244	121,024	,,	,, Cash (⅔ of £1,340)	536 – –	364	195,104
June 1	,, Cash	550 – –	213	117,150	,,	,, Goodwill	540 – –	364	196,560
Sept. 1	,, Cash	550 – –	121	66,550	Sept. 1	,, Sundry Drs. (⅔ of £4,700)	1,880 – –	121	227,480
Dec. 31	,, Balance of Products			175,790	,,	,, Interest on Balance of Products— 175,790 × 10 / 73,000	24 1 8		
,,	,, Balance c/d	914 1 8							
		3,060 1 8		648,264			3,060 1 8		648,264
Dec. 31	To Cash	914 1 8			Dec. 31	By Balance b/d	914 1 8		

Lowther owes Borchardt as follows—

Capital	£2,000 – –
Goodwill	540 – –
Interest	24 1 8
	£2,564 1 8

He pays as follows—

Mar. 1. Cash	£550 – –
June 1. Cash	550 – –
Sept. 1. Cash	550 – –
Dec. 31. Cash	914 1 8
	£2,564 1 8

Repayment of Outgoing Partner's Share by means of an Annuity.—On the death or retirement of a partner, his share of the Capital and Goodwill is sometimes paid out by means of an annuity for a limited number of years, or for his lifetime, or for the joint lives of himself and wife.

In such cases the total amount due will be credited to a separate account in the name of the annuitant and debited to a Goodwill Account. This separate account will be credited each year with interest at an agreed rate on the diminishing balance, and debited each year with the payment of the annuity. The amount of the latter will be ascertained from Annuity Tables. If before the expiration of the annuity, this account is extinguished, all future payments of the annuity will be debited to Profit and Loss as a sustained loss; on the other hand, if the annuity terminates before this credit sum is exhausted, the balance will be transferred to the Goodwill Account in reduction thereof. Until the Annuity Account is finally closed, the balance of it will appear each year on the liabilities side of the Balance Sheet. An alternative method would be simply to debit a Goodwill Account each time the annuity is paid.

LIMITED PARTNERSHIP

Definition.—A Limited Partnership is a partnership formed under the Limited Partnerships Act, 1907, which came into operation on the 1st Jan., 1908.

Meanings of Terms.—By section 3 :—

"Firm," "firm name," and "business" have the same meanings as in the Partnership Act, 1890.

"General Partner" shall mean any partner who is not a limited Partner as defined by this Act.

Constitution of a Limited Partnership.—Section 4 enacts as follows :—

(2) A limited partnership shall not consist, in the case of a partnership carrying on the business of banking, of more than ten persons, and, in the case of any other partnership, of more than twenty persons, and must consist of one or more persons called General Partners, who shall be liable for all debts and obligations of the firm, and of one or more persons to be called Limited Partners, who shall at the time of entering into such partnership contribute thereto a sum or sums as capital or property valued at a stated amount, and who shall not be liable for the debts or obligations of the firm beyond the amount so contributed.

(4) A body corporate may be a Limited Partner.

Limited Partner's Capital a Fixed Contribution.—By section 4, subsection (3) :—

A Limited Partner shall not during the continuance of the partnership, either directly or indirectly, draw out or receive back any part of his contribution, and if he does so draw out or receive back any such part shall be

liable for the debts and obligations of the firm up to the amount so drawn out or received back.

Registration Required.—By section 5 of the Act it is enacted that:—

Every limited partnership must be registered as such in accordance with the provisions of this Act, or in default thereof it shall be deemed to be a general partnership, and every Limited Partner shall be deemed to be a General Partner.

The partnership must be registered by sending to the Registrar of Joint Stock Companies a statement, signed by all the partners, giving (section 8) the following particulars:—

(1) The firm name.
(2) The general nature of the business.
(3) The principal place of business.
(4) The full name of each of the partners.
(5) The term, if any, for which the partnership is entered into, and the date of its commencement.
(6) A statement that the partnership is limited, and the description of every limited partner as such.
(7) The sum contributed by each limited partner, and whether paid in cash, or how otherwise.

Notice of any change of the above must be sent to the Registrar within 7 days. A Registration fee of £2 is payable and an *ad valorem* stamp duty of £1 per cent. on the amount introduced by the limited partner or partners, or any subsequent increase. Any person may inspect the Register of Limited Partnerships on payment of 1s., and may also obtain copies of any documents on payment of the prescribed fees.

Modifications of Partnership Law in the case of Limited Partnerships.—Section 6 enacts as follows:—

(1) A Limited Partner shall not take part in the management of the partnership business, and shall not have power to bind the firm:

Provided that a Limited Partner may by himself or his agent at any time inspect the books of the firm and examine into the state and prospects of the partnership business, and may advise with the partners thereon.

If a Limited Partner takes part in the management of the partnership business he shall be liable for all debts and obligations of the firm incurred while he so takes part in the management as though he were a General Partner.

(2) A limited partnership shall not be dissolved by the death or bankruptcy of a Limited Partner, and the lunacy of a Limited Partner shall not be a ground for dissolution of the partnership by the Court unless the lunatic's share cannot be otherwise ascertained and realised.

(3) In the event of the dissolution of a limited partnership its affairs shall be wound up by the general partners unless the Court otherwise orders.

Rights and Duties of Limited and General Partners.—These are determined by section 6 (5), which says:—

Subject to any agreement express or implied between the partners:—

(*a*) Any difference arising as to ordinary matters connected with the partnership business may be decided by a majority of the General Partners

(*b*) A Limited Partner may, with the consent of the General Partners, assign his share in the partnership, and, upon such assignment, the assignee shall become a Limited Partner with all the rights of the assignor.

(*c*) The other Partners shall not be entitled to dissolve the partnership by reason of any Limited Partner suffering his share to be charged for his separate debt.

(*d*) A person may be introduced as a Partner without the consent of the existing Limited Partners.

(*e*) A Limited Partner shall not be entitled to dissolve the partnership by notice.

Application of General Partnership Law.—Section 7 of the Act enacts as follows :—

Subject to the provisions of this Act, the Partnership Act, 1890, and the rules of equity and of common law applicable to partnerships, except so far as they are inconsistent with the express provisions of the last-mentioned Act, shall apply to limited partnerships.

Advantages and Disadvantages of Limited Partnerships.—In the case of the Limited Partner the advantages are (1) that his liability is limited to the amount he has agreed to contribute, and (2) that he can share in the profits of the partnership without increasing this fixed liability. This enables a capitalist to provide funds for inventors to carry out their ideas, also friends to finance a young man setting up in business, and to share in any benefits accruing, without incurring any further risk beyond the fixed liability. The disadvantages are (1) the Limited Partner cannot withdraw any part of his capital, (2) he cannot take part in the management, (3) he cannot dissolve the partnership by giving notice, (4) other partners can be introduced without his consent, (5) there is publicity consequent upon registration and open inspection of the Register.

As regards the General Partner the advantages are (1) fresh capital can be obtained without the expense and formalities of converting the business into a limited company, or without mortgaging his property, (2) the Limited Partner cannot interfere with the management of the business, (3) a new partner can be introduced without the consent of the Limited Partner, (4) there is no fear of capital being suddenly withdrawn, as the death or bankruptcy of the Limited Partner does not of itself dissolve the partnership, neither can the Limited Partner dissolve it by giving notice. The disadvantages to him are, chiefly, compulsory registration, and the consequent publicity through anyone being able to inspect the Register and obtain copies of any document.

Winding up of Limited Partnerships.—Section 127 of the Bankruptcy Act, 1914, enacts that the provisions of this Act shall apply to Limited Partnerships in like manner as if they were ordinary partnerships, and on all the General Partners being adjudged bankrupt, the assets of the Limited Partnership shall vest in the trustee.

QUESTIONS ON CHAPTER X

A

1. What is the legal definition of " partnership " ?
2. What three relationships are not " partnerships " within the meaning of the Partnership Act ?
3. Mention five cases in which the receipt by a person of a share in the profits of a business does not make that person a partner or liable as such.
4. What partnerships are prohibited by law ?
5. Explain the meaning of the terms " firm " and " firm-name."
6. State briefly some of the differences between an ordinary partnership and a joint stock company.
7. Explain what is meant by the following : " Active Partner," " Dormant Partner," " Limited Partner," " *quasi* partner."
8. What power has a partner as such to bind his firm ?

B

1. How far is each partner liable for the obligations of the firm ? Does this liability continue after his decease ?
2. What is the liability of the firm with reference to money or property :—
   (*a*) received by a partner, who misapplies it ?
   (*b*) received by the firm, and a partner misapplies it ?
3. Explain what is meant by " holding out," and the liabilities attaching to it. Does the penalty apply to the continued use of the firm-name after the decease of any of the partners ?
4. What are the liabilities of incoming and outgoing partners respectively ? Can they be discharged from these liabilities by an agreement between all the partners ?
5. Can partners vary their mutual rights and duties by means of a written agreement ?
6. What is meant by " Partnership Property," and how must it be dealt with according to the Partnership Act ?
7. What are the mutual rights and duties of partners, as laid down by the Partnership Act, in regard to the following:—
   (1) Sharing of Profits or Losses ? (2) Payments made by a partner on account of the firm ? (3) Advances to the firm by a partner ? (4) Interest on Capital ? (5) Management of the business ? (6) Remuneration of partners ? (7) Introduction of new partners ? (8) Disputes *re* partnership affairs ? (9) Partnership books ?
8. Can a partner be expelled by the other partners ?
9. When does a partnership terminate ? Under what circumstances is a " continuance " of a partnership presumed ?

C

1. What are the respective duties of partners towards the firm ?
2. Can a partnership exist without a deed or written agreement ? What are such partnershipsthen called ?
3. Outline the principal points which should be specifically dealt with in a partnership deed, in view of the conflicting legal interpretations of the Partnership Act.
4. Explain what is meant by " fixed " Capital Accounts. What is the object of such ? Draw up a Balance Sheet both ways in order to illustrate your answer.
5. Explain the nature and treatment of " Partners' Advances." Why are such sums not put in as additions to Capital ?
6. Explain the object and treatment of " Partners' Salaries." Is the salary always drawn out ?

7. Why is it at times necessary to charge interest on Capital in a partnership? How is such interest dealt with in the books?
8. When is it necessary in a partnership to charge interest on Drawings, and when not? Give reasons in each case for your answer.
9. Submit *pro formâ* Drawing Accounts of three kinds to illustrate actual business practice.
10. What is meant by partners' Current Accounts? How do they differ from partners' Drawing Accounts?

D

1. What is meant by "goodwill" in a partnership? How does goodwill arise? When is goodwill brought into the books, and when not?
2. How is the value of the goodwill of a business arrived at?
3. In what different ways is goodwill treated in the case of an incoming partner who pays a premium for a share therein?
4. When assets are re-valued on admission of a new partner, how should any appreciation or depreciation thereof be treated in the books?
5. Explain the phrases "Guarantee of Assets and Liabilities," and "Preferential Claim on Profits." Under what circumstances do such things arise, and how are they dealt with in the books?
6. How is goodwill valued and treated in the case of an outgoing partner?
7. What is meant by "Policies of Survivorship Assurance"? Explain their treatment in the books.
8. How is goodwill treated on the sale of a partnership business?
9. What various methods are there of repaying an outgoing partner his share in the partnership?
10. Explain the method of treatment in the books where an outgoing partner's share is being repaid by means of an annuity.
11. What are the advantages and disadvantages of limited partnerships?

EXERCISE X

1. What constitutes a partnership, and can a partnership exist without each partner becoming personally liable for the firm's responsibilities to creditors?

John Leach and William Nash had carried on business as linen-drapers for some years, but without any partnership deed, or without any arrangement as to the course to be adopted in the event of the death of either party. The business had been a profitable one, and the accounts had been made up yearly on the 31st December, and professionally audited by an auditor called in for the purpose. Leach died suddenly in July last, leaving his entire estate to his widow. What course would Nash have to adopt under the circumstances, and when would Leach's estate cease to have an interest in the profits of the business?—(*London Chamber of Commerce.*)

2. Give the "Drawings Account" of John Robertson as it would appear in the firm's Private Ledger as on 31st December, under the following conditions:—

His Capital on 1st January was £5,000.

His drawings were: 1st May, £250; 1st July, £300; 1st November, £200; 1st December, £100.

His share of profits for the year was £795.

Interest is allowed by the firm's Partnership Articles on Capital and charged on withdrawals at the rate of 5% per annum.—(*Royal Society of Arts.*)

3. A and B are partners in A and B's Coal Stores, and they share profits and losses equally. On 31st December, they had capital in the business: A, £3,100; and B, £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors, £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476; Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570.

They agreed to take into partnership C, a coal agent, as from 1st January next on the following terms: Profits and Losses to be shared: A, $\frac{2}{5}$ths, B, $\frac{2}{5}$ths; and C, $\frac{1}{5}$th. C. was to bring into the partnership "Book Debts" amounting to £560 (less a reserve for Bad Debts of 5%), and the Goodwill of his connection, valued at £310; while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on 1st January. It was further agreed between A, B, and C that the following adjustments should be made in the figures as shown on A and B's Balance Sheet on 31st December: The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt reserve of 7½% was to be deducted from outstanding Debtors; the Goodwill of the old firm (A and B) was to be taken at £455; and A. was to be paid out from the Bank Balance such a sum as would make his Capital equal to B's. The Agreement was carried out.

You are required (*a*) to make the Journal entries necessary to complete the above adjustments, and (*b*) to draw up a Balance Sheet showing the position of the new firm as on 1st January.—(*Royal Society of Arts.*)

4. Messrs. Smith & Higgins, of Poplar, Engineers, finding themselves at the close of the year in straightened circumstances for want of Capital, applied to their Bankers for an advance upon the Lease, Patents, and Fixed Machinery. The Bank agreed to the proposal conditionally upon their being satisfied as to the general soundness of the business, and on the understanding that at the close of the year the statement of the year's working, properly vouched, would be submitted to them; to this the firm agreed. Stock was carefully taken, the books made up, and the following statement submitted to the Bank, who thereupon made the advance of £5,000 asked for:—

SMITH & HIGGINS, 1*st January*

	£	£
Leasehold Works, 10 years unexpired	2,500	
Patent No. 1, 4 years unexpired	800	
„ No. 2, 6 years „	1,000	
„ No. 3, 10 years „	1,500	
Fixed Machinery and Plant	4,000	
Tools and Movable Plant	1,250	
General Stock and Work in progress	8,750	
Trade Debtors	3,500	
Stepney and Poplar Bank	580	
Cash in the House	120	
General Trade Creditors		7,500
John Smith, Advance		2,500
„ „ Capital		7,000
William Higgins, Capital		7,000
	£24,000	£24,000

During the year the Works were carried on energetically, and the Trial Balance of the Books at the 31st December was as appears on next page.

SMITH & HIGGINS, *31st December*

	£	£
Leasehold Works	2,500	
Patent No. 1	800	
„ No. 2	1,000	
„ No. 3	1,500	
Fixed Machinery and Plant	4,000	
Tools and Movable Plant	1,250	
Stock of Iron, etc., and Work in Progress	8,750	
General Purchases	9,470	
Trade Debtors	4,250	
Stepney and Poplar Bank	1,095	
Cash in the House	75	
John Smith, Drawings	400	
William Higgins, Drawings	400	
Salaries and Wages	2,340	
Freight and Carriage	280	
Rent, Rates, Taxes, and Insurance	225	
General Office Expenses	125	
Coals, Gas, and Lighting	185	
Printing, Stationery, and Advertising	75	
Interest, Commission, and Discount	550	
Sales		15,270
Trade Creditors		2,500
Stepney and Poplar Bank, Advance		5,000
John Smith, Advance		2,500
„ „ Capital		7,000
William Higgins, Capital		7,000
	£39,270	£39,270

The Stock, as at the 31st December, was duly taken, and amounted to the sum of £9,430. You are now asked to prepare the usual Profit and Loss Account (having first made due provision for Depreciation where necessary), to apportion to the partners the Profit or the Loss (as the case may be), and to make a Balance Sheet showing the exact position of the firm.—(*London Chamber of Commerce.*)

5. The books of Black & White, who are equal partners, are balanced yearly as on 31st December. Before profits are ascertained and divided, 5% interest is allowed upon partners' Capital. Depreciation at the rate of 5 % is written off the Plant Account,and a provision of 5% is made for Bad and Doubtful Debts. One year's interest, at the rate of 4½% is due upon the Loan on Mortgage, and has not yet been passed through the books. The Stock on hand, as on 31st December, was valued at £3,225. The following are the final balances as on 31st December:—

Purchases	£16,450	White's Capital Account	£2,000
Manufacturing Wages	2,150	„ Drawings Account (including Interest)	350
Sales	24,800	Stock (as on 1st January)	3,000
Black's Capital Account	5,000	Salaries	820
„ Drawings Account (including Interest)	550	Rates and Taxes	325

Trade Charges	£400	Freehold Land and Buildings	£8,000
Premium on Lease Account (6 years unexpired as on 1st January)	2,400	Plant Account	4,000
Sundry Creditors	15,345	Reserve for Bad and Doubtful Debts (as on 1st Jan.)	600
Loan on Mortgage	5,000	Sundry Debtors	13,100
		Cash at Bank	1,200

Prepare a Trading and Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

6. Messrs. Lion & Unicorn are in partnership as chemical manufacturers. Profits or losses are divided equally. Under the deed of partnership the following adjustments are necessary before the division of profits:—

Five per cent. Interest is allowed on Partners' Capital; 10% Depreciation is to be written off Plant Account and Barges Account; 5% provision is to be made for Bad and Doubtful Debts.

On 31st December the Ledger balances of the firm were as follows:—

Purchases Account	£63,000	Sundry Creditors	£3,860
Barges Account	3,250	Insurance	265
Repairs and Replacements	3,205	Bad Debts	341
Freight and Marine Insurance	312	,, ,, Reserve Account (1st January)	385
Allowances from Creditors	2,420	Advertising	982
Coal	4,404	,, Suspense Account	5,800
Gas and Water	302	Cottage Rents Received	117
Machinery and Plant Account	25,000	Cash in hand	325
Wages	6,221	R. Lion, Capital Account	59,400
Land and Buildings Account	13,840	,, Drawings Account (including Interest)	4,250
Salaries	858	P. Unicorn, Capital Account	30,000
Sundry Debtors	7,940	,, Drawings Account (including Interest)	2,050
Sales	74,441		
Cash at Bank	2,185		
Stock (1st January)	25,220		
Rent, Rates, and Taxes	873		

Stock was taken as on 31st December, and was agreed at £30,342. It was also agreed to write off half the Advertising Suspense Account, and to transfer to Building Account £3,000 from Purchases Account, and £250 from Wages Account, representing cost of materials and labour spent upon new buildings erected during the year. Prepare Trading and Profit and Loss Accounts for the year ended 31st December and a Balance Sheet as on that day.—(*London Chamber of Commerce.*)

7. William James and Edward Jones entered into partnership on the 1st January, under the style of James & Jones, as Wholesale and General Ironmongers. On the 1st January, James paid in as his Capital, £3,000, and on the 1st March, Jones paid in as his Capital, £2,000. The profits were to be divided in proportion to the capital brought in. Interest at 5% was to be charged upon their respective drawings, and Jones had to be charged interest at the same rate upon his Capital from 1st January to the 1st March. On 31st December, Stock was taken (which amounted to £2,478),

and the book-keeper took out the Trial Balance of the Books, which was as follows:—

	£	£
Plant, Tools, etc.	750	
Office Furniture and Fittings	250	
Horses, Carts, and Harness	225	
Purchases	5,750	
Sales		6,020
Rents, Rates, Taxes, and Insurance	187	
Office and General Expenses	125	
Freight and Carriage	115	
Horse Keep	95	
Discounts and Allowances	45	
Interest, Commission, and Bank Charges	32	
Printing, Stationery, and Advertising	15	
Travelling Expenses	120	
Salaries and Wages	1,020	
William James—Capital Account		3,000
Edward Jones—Capital Account		2,000
William James—Drawings:—		
1st March	80	
1st June	100	
1st September	50	
1st December	120	
Edward Jones—Drawings:—		
1st April	50	
1st July	75	
1st October	75	
1st December	75	
Trade Debtors	2,514	
„ Creditors		848
	£11,868	£11,868

Prepare, by Journal entries, the Profit and Loss Account—having first dealt with the interest referred to in the preliminary paragraph—pass the Profit (or Loss, as the case may be) to the partners' Accounts, and then prepare a General Statement of Assets and Liabilities as at the 31st December.—(*London Chamber of Commerce.*)

8. X, Y, and Z are partners.

Their respective Capitals in the business, as shown by their Balance Sheet on 31st December, are: X, £3,000; Y, £2,200; Z, £800. The profit for the year, amounting to £1,600, has been credited to X, ½ share; Y and Z, ¼ each, and the books have been closed.

During the year they have withdrawn nothing beyond their salaries, which have already been charged to Profit and Loss Account. It is found on 31st March next that interest on the Partners' Capital (5% per annum), as provided by the partnership agreement has been omitted.

Give the entries you would make in the books to correct this error.—(*West Riding of Yorkshire.*)

9. From the following particulars draw up the liabilities side of the Balance Sheet in two ways, in order to illustrate the difference in the presentation of accounts when the Capitals are (*a*) fixed, (*b*) not fixed:—

Bills Payable, £1,706 2s. 8d.; Sundry Creditors, £2,173 13s. 9d.; Out standing Expenses, £175 3s. 11d.; Loan Account, R. Rudd, £1,500; Capital

Accounts; R. Rudd, £7,000; B. Butler, £4,500; Drawing Accounts: Rudd, £1,600; Butler, £1,200; Shares of Profit: Rudd, £1,473 2s. 8d.; Butler, £1,156 13s. 10d.; Interest on Capitals: Rudd, £350; Butler, £225; Interest on Loan: R. Rudd, £75.

10. A. Aplin and C. Charles are in partnership, sharing profits and losses three-fifths and two-fifths respectively. They agree to admit P. Paton as a partner with a fifth share on condition that he brings in £1,500 Capital, and that the old partners are credited with their respective shares of the Goodwill estimated at £2,000. Aplin and Charles, as between themselves, are to share profits and losses in the same ratio as before. Make the necessary entries in the books, and state the partners' future proportions of profit respectively.

11. A. Bassett and P. Palmer are in partnership sharing profits and losses two-thirds and one-third respectively. They agree to admit D. Dawson as a partner on condition that he brings into the business £1,500 Capital and pays them a premium of £250 for a fifth share in the profits. Make the necessary entries in the books.

12. B. Blackburn and P. Pinner are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit M. Marsden as a partner on condition that he brings into the business £1,800, £240 of which is to be regarded as premium for admission, but is to be paid out to the partners in the proportions in which they are entitled to share it. Make the necessary entries in the books.

13. G. Gardner and C. Campbell are in partnership, sharing profits and losses two-thirds and one-third respectively. They agree to admit R. Reid as a partner on condition that he brings in £1,800, £240 of which is to be regarded as premium for Goodwill; the money, however, is to remain in the business. Make the necessary entries in the books.

14. D. Dutton agrees to admit F. Fletcher into partnership on the following terms: (*a*) That Fletcher brings £2,300 Capital into the business; (*b*) that £300 is to be paid out to Dutton and is to appear in the books of the partnership as Goodwill. Make the necessary entries in the books.

15. A. Dean and B. Gibson are partners in a Timber business, sharing profits and losses equally. On 31st December their Capitals stood at £5,375 and £4,865 respectively. The firm's Assets and Liabilities on the same date were as follows: Plant and Tools, £1,926; Furniture and Fixtures, £105; Sundry Creditors, £920; Cash at Bank, £1,406; Horses, Carts, Waggons, etc., £1,685; Bills Payable, £657; Sundry Debtors, £3,940; Cash in hand, £35; Stock of Timber, £2,720. They agree to take into partnership F. Fir, a Timber Agent, as and from 1st January on the following terms: Profits and Losses to be shared: Dean, two-fifths; Gibson, two-fifths; and Fir, one-fifth. Fir is to bring into the business Sundry Debtors amounting to £920 (less a Reserve of 5% for Bad Debts), and the Goodwill of his connection, estimated at £350. His Capital in the new business is to be £2,150, the balance of which he is to pay in in Cash on 1st January. It was also agreed between them that the following adjustments should be made as regards the business of Dean and Gibson: Plant to be taken at £2,060, and Horses, Carts, Waggons, etc., £1,720, the values placed on them by a public valuer; a Bad Debts Reserve of 5% of the Sundry Debtors to be created; Goodwill to be valued at £1,050; Dean to be paid out from the Bank balance such a sum as will reduce his Capital to the same amount as Gibson's. Make the necessary entries in the subsidiary books to carry out the above agreement, and show the Balance Sheet of the firm prior to commencing business.

16. Smith, Brown & Robinson enter into partnership, as equal partners, for the purpose of purchasing the successful business of Peter White, who is retiring.

The business was taken over as on 1st January, as it stood, upon the basis of the last Balance Sheet which was as follows:—

BALANCE SHEET OF PETER WHITE

Capital Account	£20,540	Leasehold Factory	£12,540
Sundry Creditors	3,218	Machinery & Plant	8,200
Reserve Account for Depreciation	608	Patents Account	600
		Sundry Debtors	1,560
		Stock on hand	1,458
		Difference in Books	8
	£24,366		£24,366

The purchase price of the business as a going concern was agreed at £25,000, which amount was duly paid to Peter White.

Cash was paid into the new firm's banking account by the partners as follows: Smith, £12,000; Brown, £10,000; Robinson, £6,000.

Before opening the books of the new firm it was agreed (*a*) to write off the difference in the books; (*b*) to transfer the Reserve Account for Depreciation to Machinery and Plant Account, and to write off a further £200 as depreciation; and (*c*) to write off £200 from Patents Account.

Make the entries necessary to record the above transactions in the books of the new firm, and prepare a Balance Sheet disclosing the position of Smith, Brown & Robinson upon commencing business.—(*London Chamber of Commerce.*)

17. O. Brown and P. Crew are in partnership sharing profits and losses three-fifths and two-fifths respectively. In order to provide money for repayment of their share of the Capital and Goodwill in the event of death, they assure their lives jointly for £8,000, paying an annual premium of £310, which is debited to the firm's Profit and Loss Account each December. Crew dies on the last day of June, 19... The partnership deed provides that his representatives are to receive his Capital as per the last Balance Sheet, plus interest at 5% per annum to date of death, and his share of the profits to date of death, estimated according to the profits of the preceding year. They are also to receive his share of the Goodwill, estimated at two years' purchase of the average net profits of the last three years before charging the insurance premiums. The net profits for the last three years after charging the insurance premiums were £2,073, £2,458, and £2,024 respectively. Crew's Capital as per last Balance Sheet was £3,000, and his Drawings to date of death amounted to £720. Make the necessary adjustments and draw up Crew's Account, showing the amount payable to his legal representatives.

18. Assume in the previous exercise that P. Crew's share of the Capital and Goodwill is payable by annual instalments of £2,000, interest at 5% per annum being charged on the outstanding balance. Show the Ledger Account in the firm's books.

19. E. Helm and P. Porter are in partnership, sharing profits and losses

equally. Helm agrees to buy out P. Porter, and the position of affairs on this date is as follows:—

BALANCE SHEET.—1ST JAN.

Liabilities.				*Assets.*			
Sundry Creditors	1,265	–	–	Sundry Debtors	4,624	–	–
Capital A/cs:—				Office Furniture	336	–	–
E. Helm	3,110	–	–	Cash	1,525	–	–
P. Porter	2,110	–	–				
	6,485	–	–		6,485	–	–

Helm is to take over the Office Furniture at £310, to allow Porter £625 for his share of the Goodwill, and to pay him his proportion as and when realised, interest to be taken into account at 5% per annum. A loss of £224 is sustained on the Sundry Debtors; and a discount of £30 is obtained from the Creditors. The latter were paid at an average date of four months, and the Debtors were realised at an average date of eight months from the date of dissolution. Helm paid Porter £550 on 1st March, £650 on 1st June, £750 on 1st September, and the balance on 31st December. Draw up the Account Current between Helm and Porter, and show the final payment made to Porter on 31st December.

20. R. Rostron and T. Teale are in partnership. On 1st January their Capitals were: Rostron, £3,750; Teale, £750. During the year they lost £1,070 without reckoning Interest on Capital, which, by the partnership deed, must be allowed at 5% per annum. They share profits and losses $\frac{4}{5}$ths and $\frac{1}{5}$th. Their Drawings during the year were £620 and £350 respectively. Draw up the Profit and Loss and Capital Accounts as at 31st December.

21. Cowan, Bennett & Co. have made profits during the year of £2,650. The partnership consists of C. Cowan and B. Bennett, who are equal partners. On 1st January, Cowan's Capital was £5,450 and Bennett's £4,520. Bennett also brought in £1,000 on 31st March. Interest is to be allowed on Capital at 5% per annum, and Bennett is entitled to a management salary of £300. Cowan is entitled to £500 per annum for Rent of the business premises, which are his own property. Draw up the Profit and Loss and Capital Accounts.

22. (*a*) The profits of the partnership of Austin, Bell & Cooper amounted, on 31st December, to £2,521 5s. On 1st January the Capitals of the partners were as follows: Austin, £6,250; Bell, £4,500; Cooper, £4,500. The partners' Drawings were: Austin, nil; Bell, £350; and Cooper, £350. Interest is to be allowed on Capital at 5% per annum. Profits are divisible thus: Austin, $\frac{4}{9}$ths; Bell and Cooper, $\frac{2}{9}$ths each. Draw up the Profit and Loss and Capital Accounts.

(*b*) On 1st January following they agree to take into partnership P. Peters with an eighth share of the profits. What amount must he bring in to entitle him to such a share on a par with the Capital of the others as at the previous 31st December, and what will be the new proportions for division?

23. A partnership consists of three partners: T. Fisher, D. Green, and H. Gray. The Capitals of Fisher & Green on 1st January were £3,650 each. Gray had overdrawn and had £250 to his debit. On 30th June the profits for the half-year to date amounted to £1,256, and were divisible equally. The three partners had drawn £250 each; Gray had also drawn £65 extra

on 31st March and £40 on 30th June. Draw up the Profit and Loss and Capital Accounts, allowing interest at 5% per annum on Capitals and charging interest at the same rate on excess Drawings.

24. T. Tree & L. Grayson are in partnership, sharing profits and losses two-thirds and one-third respectively. On 1st January they agree to admit B. Birch, their managing clerk, as a partner with a sixth share of the profits. By the terms of the partnership deed, any excess over his former remuneration to which Birch becomes entitled as a partner is to be borne by Tree. Birch has previously received a salary of £250 per year, and a commission of 5% of the net profits after charging such salary and commission. The profits for the year ended 31st December amount to £5,560. How should this latter sum be divided between the partners?

25. M. Mason and B. Box decide to amalgamate their businesses as at 25th April. Their Balance Sheets are as follows:—

M. Mason

Liabilities.		*Assets.*	
Creditors	£3,250	Cash in hand	£50
Capital	20,500	„ at Bank	3,850
Profit and Loss	1,650	Debtors	6,500
		Stock	5,000
		Land and Buildings	10,000
	£25,400		£25,400

B. Box

Liabilities.		*Assets.*	
Bank Overdraft	£2,105	Cash	£125
Creditors	1,895	Debtors	5,750
Capital	5,500	Stock	3,625
	£9,500		£9,500

Mason is to be credited with £3,500 for Goodwill, and Box with £750. Five per cent. is to be reserved on all Debtors. Box's overdraft is to be paid off out of the private funds of Mason, who is to receive credit therefor. Make the necessary Journal entries, and show Balance Sheet as at commencement of business.

26. A, B, and C enter into partnership on 1st January. Each partner is to draw a like sum per annum for his services, and to share profits according to Capital, and according to the time the capital is in the business. On 1st January, A pays in £5,000; on 1st April, B pays in £4,000; on 1st June, C pays in £4,000; on 1st November, A pays in a further £2,000. The net profits on 31st December amounted to £2,520. How much of the latter sum should each partner receive?

27. Johnson, Moore, Elliott & Graham are in partnership. After the annual accounts have been prepared and signed as at 31st December, it is discovered that interest on capital at 5% per annum has been inadvertently omitted. Instead of re-opening the books and altering the Balance Sheet, it is decided to make an adjusting entry at the beginning of the new year.

The Capitals of the partners are: Johnson, £8,500; Moore, £5,500; Elliott, £5,500; Graham, £4,500; and profits are divisible thus: Johnson, ½rd; Moore, ¼th; Elliott, ¼th; Graham, ⅛th. Give the one Journal entry that would be required to adjust the above matter.

28. X and Y are in partnership. X has a capital of £8,000 and Y has a capital of £5,000. They agree to admit Z as a partner with £4,600, £1,300 of which is to be considered as payment for a share of the Goodwill, and to be credited to X and Y in proportion to their capitals. How should the profits be divided in order that each partner shall receive a share proportionate to his capital in the concern.

29. S. Simpson agreed to take W. Winder into partnership. Winder was to bring in £6,000. Of this, £2,205 was to be paid for a three-seventh's share of Simpson's profits, calculated at two years' purchase of their average amount, and the remainder was to be Winder's capital. Simpson was to leave one-half of this purchase money in the concern, in order to make his capital up to half as much again as that of Winder. What were Simpson's average profits, and what was his capital before the partnership?

30. X retires from business and agrees to dispose of it to Y. The assets are: Plant, £2,500; Stock, £3,750; Debtors, £4,520. The liabilities, which are to be discharged by Y, are: Sundry Creditors, £3,750. Y brings in as his Capital, £3,500. The purchase money is to be paid by instalments of £1,000 each year, interest at 5% per annum being charged on the unpaid balance. Y is also to pay £2,000 for Goodwill out of the profits, at the rate of one-fourth of the profits each year, after charging interest on the unpaid purchase money. No interest, however, is to be charged on the sums due for Goodwill. The profits for the next five years were as follows: 1st year, £1,750; 2nd year, £1,950; 3rd year, £2,050; 4th year, £2,500; 5th year, £2,065. Show the Profit and Loss Account, the Business Purchase Account, and the Goodwill Account, all up to the completion of the latter.

31. Cox, Mason, & Holding are in partnership, sharing profits and losses ½, ⅜, and ⅛ respectively. Holding's share, however, is guaranteed by the other partners at a fixed minimum of £360. The net profits for the current year amount to £1,760. Show by means of an account what amount each partner will receive.

32. C. Carus and O. Kelly entered into partnership on 1st January without, however, drawing up any formal deed of partnership. Carus put in £3,050, and Kelly £2,050 as their capitals respectively. On 1st March, Carus advanced £1,000 to the firm as a loan, but without any agreement as to interest thereon. On 31st December the net trading profits for the year amounted to £2,760. The partners are unable to agree on the following questions: (*a*) Interest on Loan; (*b*) interest on Capital; (*c*) division of profits. Draw up a Profit and Loss Account showing how you would deal with these matters.

33. Hart, Capper, & Bonar are in partnership. On 1st January their Capitals were £3,500, £2,520, and £1,740 respectively. Interest at 5% per annum is allowed on Capital, but no interest is chargeable on Drawings. Capper is entitled to a salary of £300 and Bonar to a salary of £250 per annum before division of profits. The partners' Drawings were £850, £650, and £450 respectively. The profit for the year ended 31st December after charging partners' Salaries, but before charging Interest on capital, amounted to £2,050. The first £1,000 of divisible profit is to be shared thus: Hart, 50%; Capper, 30%; Bonar, 20%; the balance of profits is to be shared

equally. Draw up the Profit and Loss Account and the partners' Capital Accounts.

34. B. Bartle & W. West are in partnership, and their profits and losses for the last three years are: 1st year, Loss, £560; 2nd year: Profit, £2,749; 3rd year: Profit, £3,505. The above results are after charging Interest on Capital at 5% per annum, Interest at 5% per annum on Loan, £4,000 from F. Flynn (their manager), and the latter's salary of £450 per annum. The partners' Capitals, which have not been touched, are: Bartle, £12,000; West, £8,000. Profits and Losses are divisible according to capitals. At the end of the third year, Bartle & West agree to regard Flynn as having been a partner from the beginning, and to adjust the accounts accordingly. His Loan is to be treated as Capital, and he is to have a sixth share of the profits. Flynn's Loan, however, is to bear interest at 4% instead of 5%, and his salary is to be reduced to £350 per annum; both these alterations are to take effect over the past three years. What adjustments will be necessary to carry out the above arrangements?

35. Brown joins the firm of Smith and Jones, as a limited partner, and contributes £9,000 as his Capital on 31st March. The annual accounts are made up to the end of September following, and Brown's share of profit to that date is £675, which, with a further sum of £325 in Cash, he adds to his capital in the firm. At the end of December he assigns two-fifths of his capital to his eldest son, and two-fifths to four other children equally as limited partners. Show the several amounts of the capital as thus divided, and state what is required to comply with the Limited Partnerships Act, 1907, on the above changes taking place.—(*Chartered Accountants.*)

36. William Jones, of Hyde Park, Chesterton, and Henry Smith, of 50 High Street, Burnham, combine their businesses, and enter into partnership as Clothiers and Tailors, under the style of the Eastern Clothing Co., at 50 High Street, Burnham. The partnership is to be a limited partnership for a term of 10 years, Jones, the limited partner, contributing £2,000, of which £1,000 was Stock, £500 Book Debts, and £500 Cash. Smith, the general partner, contributed £1,000 of which £700 was Stock, £150 Book Debts, and £150 Furniture and Fittings. Make out the form of Return, setting out the particulars which will have to be filed with the Registrar. What will be the rights and liabilities of William Jones?—(*Chartered Accountants.*)

37. A and B carry on business in partnership as Timber Merchants. They divide profits: A two-thirds, B one-third, and on 31st December their Balance Sheet was as follows:—

Liabilities.		*Assets.*	
Sundry Creditors and Bills Payable	£3,000	Leasehold Land and Buildings	£2,000
Capital Accounts—		Plant and Machinery	1,800
A.	4,000	Sundry Debtors and Bills Receivable	2,500
B.	2,000	Stock	2,100
		Cash at Bank and in hand	600
	£9,000		£9,000

They agree to take C into partnership on 1st January. The profits are to be divided: A two-fifths, B two-fifths, C one-fifth. A is to be a limited partner,

and B and C general partners. C is to pay in £1,000 as Capital. The assets of the business are to be taken over by the new firm on the following terms: Land and Buildings at £2,250, Plant and Machinery subject to 10% deduction for depreciation. Sundry Debtors and Bills Receivable subject to an allowance of £500 to cover Bad Debts, Discounts, and cost of collection, Stock at £1,800. The new firm also takes over the liabilities of the old firm as shown in the above Balance Sheet. A agrees with B that any loss on the taking over of the assets by the new firm shall be borne by him (A). A's Capital as limited partner in the new firm is to be £3,000. B's Capital is to be £2,000. Open the books of the new firm, and make out Balance Sheet as on 1st Jan., presuming C's Capital to have been paid in.—(*Chartered Accountants.*)

REVISION EXERCISE X

1. Can you suggest any system in the book-keeping of a City Wholesale and Retail House which, while insuring strict accuracy, would avoid the trouble and labour of repeating detail? Give a Form of Cash Book and Petty Cash Book you would recommend, and introduce debit and credit items, including payments into the bank, and cheques drawn therefrom. —(*London Chamber of Commerce.*)

2. Assuming you to be called in by A B and C D, on their contemplating entering into business in the Textile Trade, to advise them generally, and to lay down a proper system of accounts with a view to your taking charge of the Book-keeping and Finance, state briefly what course you would adopt, and what system you would lay down, so that each partner's interests would be protected and the financial success of the business secured. —(*London Chamber of Commerce.*)

3. What are Bills of Lading, and what do you understand by the term "Drawing as against Bills of Lading"?—(*London Chamber of Commerce.*)

4. John Nightingale, East Street, Sheffield, sells to the Low Moor Iron Co., on 4th March, 40 tons of Scotch Iron at 45s. per ton; 10th March, 100 tons of Swedish Iron at 44s. per ton; 19th March, 80 tons of Hematite Iron at 42s. per ton; and receives, 30th March, £200 on account, and on 2nd April, a Bill of Exchange at three months for £250.

(*a*) Make out an Invoice of the first transaction.

(*b*) A Statement of Account on 12th July; and

(*c*) Draw the B/E mentioned above, make it payable in Leeds, and write upon it an acceptance for payment at the Leeds Joint Stock Bank, Ltd.

(*d*) Note at the left-hand side the amount of Stamp Duty.

(*e*) Also rule a form of John Nightingale's Bill Book, and enter in it the particulars of this Bill.

What entries would appear in the Low Moor Iron Co.'s Books in respect of the B/E mentioned in the foregoing question?—(*West Riding of Yorkshire.*)

5. What is the difference between:—

(*a*) Consignment and (*b*) Joint Adventure?

How would you deal with Consignments not completed at the date of balancing?—(*National Union of Teachers.*)

6. Explain the difference (if any) between a "Revenue Account," an "Income and Expenditure Account," and a "Receipts and Payments Account."—(*London Chamber of Commerce.*)

7. From the following particulars draw up an Account Current to be rendered by B. Boot to L. Lacey at 30th June, reckoning interest at 5% per annum :—

19..
Jan. 1. Balance owing by L. Lacey to B. Boot, £255 13s.
Feb. 10. Cash received from Lacey, £120.
„ 23. Goods bought of Lacey, £478 9s. 10d.
„ 25. Boot accepted Lacey's draft @ 1 m/d for £200.
Mar. 10. Cash paid to Lacey, £150.
April 12. Goods sold to Lacey, £391 1s., due 12th May.
May 19. „ bought of Lacey, £226 19s. 4d.
June 8. „ bought of Lacey, £113 9s. 2d.
„ 15. Cash paid to Lacey, £100.
„ 20. Goods sold to Lacey, £496 7s. 8d.
„ 25. Cash received from Lacey, £200.

8. Received Consignment of Goods from B. Bowman, valued at £750. Paid cartage and expenses, £20. Sent Bowman bill at one month for £200 as an Advance. Sold part of Consignment to R. Brown for £350, part for Cash £350 and the remainder £300 took into stock for our own use. Charged Bowman 5% Commission, and sent him sight draft for amount due.

Make the necessary Journal and Cash Book entries to record the above, and show Bowman's account in the Ledger.

9. The Sundry Debtors at 31st December are £5,721 15s. 8d. A Bad Debts Reserve of 5% is required. The Bad Debts Reserve at 1st January was £267 14s. 11d., and the Bad Debts during the year amounted to £236 3s. 2d. Show the Journal, Ledger, Profit and Loss, and Balance Sheet entries for the above (both ways).

10. On 1st Jan. the Reserve for Discount on Debtors was £156 16s. 6d. The Discounts Allowed during the year amounted to £164 8s. 10d. The Debtors at 31st December are £3,895 14s. 11d. A Bad Debts Reserve of 5% is made, and a new Discount Reserve of 5% is required. Show the Journal, Ledger, Profit and Loss Account, and Balance Sheet entries relating to discount (both ways).

11. Prepare a Trading Account, Profit and Loss Account, and Balance Sheet from the following Balances of X Y Z & Co.'s Books, extracted at 31st December, covering six months' operations.

Cash at Bankers	£2,640
Petty Cash in hand	3
Sales	16,123
Stock in hand at commencement of period	2,741
Returns (Customers' returns for the half-year)	330
Discount allowed to Customers	938
Bills Receivable in hand	182
Sundry Debtors	5,272
Purchases	8,403
Discount allowed on Purchases	390
Wages	1,404
Reserve for Bad and Doubtful Debts	540
„ for Discount on Book Debts	197
Sundry Creditors	1,970
Buildings	4,384
Patent Rights	50
Loan on Mortgage	4,500
Rent, Rates, and Taxes	106

Advertising	£463
Traveller's Salary	431
Carriage	394
Bad Debts Written off	101
Plant and Machinery	2,672
Repairs	84
C G—Capital Account Balance, 1st July	6,110
C G—Drawing Account	1,200
S G—Capital Account Balance, 1st July	2,952
S G—Drawing Account	720
Interest on Loans	124
Reserve Account. Patent Royalties received in advance.	500
Royalties on Patents, attributable to the half year to 31st December *Cr.*	40
Trade and General Expenses	502
Depreciation written off Buildings	23
,, ,, ,, Plant	155
Stock-in-Trade, 31st December	3,275
Profits to be apportioned—C G, $\frac{5}{8}$; S G, $\frac{3}{8}$	

—(*Chartered Accountants.*)

CHAPTER XI

DISSOLUTION OF PARTNERSHIP

When is a Partnership dissolved?—Subject to any agreement between the partners, a partnership is dissolved:—

(*a*) If entered into for a fixed term, by the expiration of that term.

(*b*) If entered into for a single adventure or undertaking, by the termination of that adventure or undertaking.

(*c*) If entered into for an undefined time, by any partner giving notice to the other or others of his intention to dissolve the partnership.

In the last-mentioned case the partnership is dissolved as from the date mentioned in the notice as the date of dissolution, or, if no date is so mentioned, as from the date of the communication of the notice.

Dissolution by Bankruptcy, Death, Charge, or Illegality.—Subject to any agreement between the partners, every partnership is dissolved as regards all the partners by the death or bankruptcy of any partner.

A partnership may, at the option of the other partners, be dissolved if any partner suffers his share of the partnership property to be charged under the Partnership Act for his separate debt.

A partnership is in every case dissolved by the happening of any event which makes it unlawful for the business of the firm to be carried on or for the members of the firm to carry it on in partnership.

Dissolution by the Court.—On application by a partner the Court may decree a dissolution of the partnership in any of the following cases:—

(*a*) When a partner is found lunatic by inquisition, or in Scotland by cognition, or is shown to the satisfaction of the Court to be of permanently unsound mind, in either of which cases the application may be made as well on behalf of that partner by his committee or next friend or person having title to intervene as by any other partner.

(*b*) When a partner, other than the partner suing, becomes in any other way permanently incapable of performing his part of the partnership contract.

(*c*) When a partner, other than the partner suing, has been guilty of such conduct, as in the opinion of the Court, regard being had to the nature of the business, is calculated to affect prejudicially the carrying on of the business.

(*d*) When a partner, other than the partner suing, wilfully or persistently commits a breach of the partnership agreement, or otherwise so conducts himself in matters relating to the partnership business that it is not reasonably practicable for the other partner or partners to carry on the business in partnership with him.

(*e*) When the business of the partnership can only be carried on at a loss.

(*f*) Whenever in any case circumstances have arisen which, in the opinion of the Court, render it just and equitable that the partnership be dissolved.

Notice of Dissolution or Change.—Where a person deals with a firm after a change in its constitution he is entitled to treat all apparent members of the old firm as still being members of the firm until he has notice of the change.

"An advertisement in the *London Gazette* as to a firm whose principal place of business is in England or Wales, in the *Edinburgh Gazette* as to a firm whose principal place of business is in Scotland, and in the *Dublin Gazette* as to a firm whose principal place of business is in Ireland, shall be notice as to persons who had no dealings with the firm before the date of the dissolution or change so advertised."—(*Partnership Act.*)

N.B.—Consequent on the establishment of the Irish Free State, and a separate government for Northern Ireland, there are now two Irish Gazettes for these political divisions, the *Dublin Gazette* and the *Belfast Gazette.*

Continuing Authority of Partners for Winding-up Purposes.—After the dissolution of a partnership the authority of each partner to bind the firm, and the other rights and obligations of the partners continue notwithstanding the dissolution so far as may be necessary to wind up the affairs of the partnership, and to complete transactions begun but unfinished at the time of the dissolution.

Provided that the firm is in no case bound by the acts of a partner who has become bankrupt; but this proviso does not affect the liability of any person who has after the bankruptcy represented himself or knowingly suffered himself to be represented as a partner of the bankrupt.

Rule for Distribution of Assets.—By section 44 of the Partnership Act, 1890, in settling accounts between the partners after a dissolution of partnership, the following rules must, subject to any agreement, be observed:—

(*a*) Losses, including losses and deficiencies of capital, shall be paid first out of profits, next out of capital, and lastly, if necessary, by the partners individually in the proportion in which they were entitled to share profits.

(*b*) The assets of the firm including the sums, if any, contributed by the partners to make up losses or deficiencies of capital, shall be applied in the following manner and order:—

(1) In paying the debts and liabilities of the firm to persons who are not partners therein.

(2) In paying to each partner rateably what is due from the firm to him for advances as distinguished from capital.

(3) In paying to each partner rateably what is due from the firm to him in respect of capital.

(4) The ultimate residue, if any, shall be divided among the partners in the proportion in which profits are divisible.

Formula for Treatment of a Dissolution of Partnership.—For making the necessary entries in the books in connection with an ordinary dissolution of partnership, the following formula will prove useful to the student.

(1) Open a Realisation Account and debit it with the total of the assets (except Cash or a debit balance of any of the partners' Capital Accounts).

(2) Open accounts for Cash, Creditors, Partners' Loans, Partners' Capitals, and enter therein the balances as per the Balance Sheet.

(3) Debit Cash and credit Realisation Account with the proceeds of sale of the assets. If any of the assets are not sold but are taken over by one of the partners, then debit that partner's Capital Account and credit Realisation Account with the agreed value.

(4) Credit Cash and debit Realisation Account with the expenses of winding up.

(5) Pay off (*a*) Creditors, (*b*) Partners' Loans, *i.e.*, credit Cash and debit these accounts.

(6) Balance the Realisation Account and transfer the balance, profit or loss as the case may be, to the partners' Capital Accounts. If as the result of a loss on realisation the Capital Account of one of the partners is put temporarily in debit, that partner must bring in cash to repay to the firm his indebtedness ; debit Cash and credit partner's Capital Account. The deficiency may also be made good by transfer from such partner's Loan Account, if he has one.

(7) Balance Partners' Capital Accounts and divide the cash according to these credit balances of Capital.

Note.—Students often divide the cash between the partners in the same proportion as *profits and losses*, but this is quite wrong. The debit balance of cash at the close must be equal to the *total* of the credit balances of the Capital Accounts ; and the cash paid out to each partner must be *the amount standing to the credit of his Capital Account*, no more, no less.

Garner *v.* Murray.—Whenever a partner is unable to repay to the firm his indebtedness, the ruling of *Garner* v. *Murray* must be applied. This decision by Mr. Justice Joyce, in November, 1903, was that the solvent partners are only liable to make good their share of the deficiency, and that the remaining assets should be divided among them in proportion to their capitals. In other words, the loss caused by the default of an insolvent partner is to be borne in proportion to *capital* and not in the proportion that ordinary losses are to be borne. After considerable discussion and controversy, it is thought that the correct interpretation of this ruling is for the solvent partners *to bring in cash* to meet their share of the loss on realisation.

For the benefit of accountancy students it may, perhaps, be as well to give a short summary of the *Garner* v. *Murray* case, and of the great controversy to which it gave rise amongst professional accountants.

Garner, Murray and Wilkins entered into partnership under a parol agreement to contribute capital in certain unequal shares but to divide profits equally. On dissolution the assets realised sufficient to pay the creditors

and advances of two of the partners, but were insufficient to repay the partners' capitals. The position was approximately as follows :—

BALANCE SHEET

Liabilities.				*Assets.*			
Capital Accounts—				Cash	1,916	–	–
Garner	2,500	–	–	Wilkins—Overdrawn	263	–	–
Murray	314	–	–	Deficiency of Firm	635	–	–
	2,814	–	–		2,814	–	–

Wilkins was insolvent and unable to contribute anything. Mr. Justice Joyce held that a loss arising through the default of one of the partners must be distinguished from an ordinary trading loss or loss on realisation. That, provided outside creditors' claims had been met, the liability of each separate partner was limited to making good *his* share of the deficiency. That, in the case in question, each partner should be treated as liable to contribute an equal third share of the deficiency, and that the assets should then be applied in paying each partner rateably what was due to him in respect of capital.

The decision caused great surprise in accountancy circles, which had not previously discriminated between an *internal* and an *external* loss, *i.e.*, between a loss occasioned by the default of a partner, and an ordinary trading loss. As previously explained, under the old method the £263 would have been added to the £635, and the total loss of £898 would have been borne by the solvent partners in the same *relative* proportions in which they had previously shared profits, namely, 1 : 1, or one-half each. The effect of Mr. Justice Joyce's decision, however, was that the £635 should be shared by *all* the partners in the same way that they shared ordinary profits and losses, *i.e.*, one-third each ; but that Wilkins's £263 and share of deficiency should be borne by the solvent partners in the proportion of their capitals. For although the solvent partners are not liable to " make good " the insolvent partner's overdraft and share of deficiency, yet inasmuch as his default causes a deficiency of assets, it follows that the solvent partners actually *bear* the loss of this amount. And as this loss represents a deficiency of cash, it follows that the solvent partners bear this loss of cash in the same proportion in which they share the actual cash, namely, in proportion to their capital, *i.e.*, in the ratio which each partner's capital bears to the total capital of the partners. This can be plainly seen from the worked example on page 345.

The decision occasioned much comment and discussion, which finally developed into a sharp controversy, raging chiefly round the precise meaning of the judge's words, " making good his share of the deficiency." Many accountants contended it meant that the solvent partner should bring in cash ; others contended this was unnecessary, so long as there was a sufficient credit balance in his Capital Account to liquidate his share of the firm's deficiency. The arguments and counter-arguments are as follows :—

1. The solvent partners should bring in cash, which should be debited to Cash Account and credited to the Deficiency Account, thus actually carrying out the letter of the law, and " making good " their shares of the deficiency. The arguments against this course are : (1) that it is unreasonable to ask a partner to bring in cash when he already has a credit balance in his Capital Account ; (2) that it might be impossible, as the partner might have sunk the whole of his capital in the business ; (3) that it is quite contrary to accountancy practice in other cases, where, if the result of a realisation is to place a partner's account in debit, such deficit is often made good by transfer from his Current Account, and even from his Loan Account if he has one. In reply

it is urged that these objections are not points of equity but merely sentimental reasons and questions of convenience, which do not invalidate the argument that this method fulfils the letter of the law.

2. The solvent partners should have their shares of the deficiency debited to their Capital Accounts. In opposition to this course it is contended (1) that debiting a loss to capital is not making it good; (2) that the Capital Accounts as per last Balance Sheet represent the partners' agreed shares of such capital, and are, according to the judgment, to form the basis for distribution of the assets; (3) that to debit the shares of deficiency to the Capital Accounts would alter the Capital Accounts and destroy the basis for the distribution of the assets; (4) that this flaw in fulfilling the conditions of the judgment vitiates this method.

3. The solvent partners should be shown on the Balance Sheet as debtors for their shares of the deficiency. This would prevent the Capital Accounts being altered. The objections raised to this course are (1) that it is an attempt to carry out the judgment by means of a paper entry instead of an actual contribution; (2) that in the case of fixed capitals a partner who had a credit balance in his Current Account could offset it against this debit, and thus render this method futile.

(1) Profit on Realisation

Example.—Long and Short are in partnership, sharing profits and losses two-thirds and one-third respectively. The state of affairs at the date of dissolution is as follows:—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	2,750	–	–	Cash	725	–	–
Capital A/cs:—				Sundry Debtors	2,168	–	–
Long	3,540	–	–	Stock	4,029	–	–
Short	2,107	–	–	Fixtures and Fittings	1,475	–	–
	8,397	–	–		8,397	–	–

The Fixtures and Fittings are taken over by Long at the agreed price of £1,425. The Debtors and Stock realise £7,265, and the expenses of winding up are £115. Close the books of the firm, showing the Ledger Accounts.

Dr. REALISATION ACCOUNT. *Cr.*

To Sundry Assets	7,672	–	–	By Cash	7,265	–	–
„ Cash (Expenses)	115	–	–	„ Long (Capital A/c). Fixtures taken over as agreed	1,425	–	–
„ Balance (profit)— Long ⅔, £602 Short ⅓, 301	903	–	–				
	8,690	–	–		8,690	–	–

Dr. CASH BOOK. *Cr.*

To Balance	725	–	–	By Realisation A/c (Expenses)	115	–	–
„ Realisation A/c—Proceeds of Sale of Assets	7,265	–	–	„ Sundry Crs.	2,750	–	–
				„ Balance—Long	2,717	–	–
				Short	2,408	–	–
	7,990	–	–		7,990	–	–

Dr. SUNDRY CREDITORS. *Cr.*

To Cash	2,750	–	–	By Balance	2,750	–	–

Dr. LONG.—CAPITAL ACCOUNT. *Cr.*

To Fixtures, etc.	1,425	–	–	By Balance	3,540	–	–
„ Cash	2,717	–	–	„ Realisation A/c: ⅔ Profit	602	–	–
	4,142	–	–		4,142	–	–

Dr. SHORT.—CAPITAL ACCOUNT. *Cr.*

To Cash	2,408	–	–	By Balance	2,107	–	–
				„ Realisation A/c: ⅓ Profit	301	–	–
	2,408	–	–		2,408	–	–

(2) Loss on Realisation

Example.—Topping and Bottomly are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution :—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	3,344	–	–	Cash	638	–	–
Topping (Loan Account)	1,200	–	–	Sundry Debtors	3,146	–	
Capital Accounts—				Stock	4,285	–	–
Topping	4,025	–	–	Fixtures and Fittings	1,275	–	–
Bottomly	2,275	–	–	Goodwill	1,500	–	–
	10,844	–	–		10,844	–	–

The Debtors, Stock, Fixtures and Fittings realise £8,426, and the expenses of winding up are £132. During the realisation, events actualise a contingent liability of £125, which has therefore to be paid in addition to the other Creditors. Close the books of the firm, showing the Ledger Accounts

Dr. REALISATION ACCOUNT. Cr.

To Sundry Assets	10,206	–	–	By Cash (Proceeds of Sale of Assets)	8,426	–	–
„ Cash (Expenses)	132	–	–	„ Balance (loss)—			
„ Cash (Contingent Liability)	125	–	–	Topping ⅔, £1,358			
				Bottomly ⅓, 679			
					2,037	–	–
	10,463	–	–		10,463	–	–

Dr. CASH BOOK. Cr.

To Balance	638	–	–	By Realisation A/c (Expenses)	132	–	
„ Realisation A/c— Proceeds of Sale of Assets	8,426	–	–	„ Realisation A/c (Contingent Liability)	125	–	–
				„ Sundry Creditors	3,344	–	–
				„ Topping (Loan A/c)	1,200	–	–
				„ Balance—			
				Topping	2,667	–	–
				Bottomly	1,596	–	–
	9,064	–	–		9,064	–	–

Dr. SUNDRY CREDITORS. Cr.

To Cash	3,344	–	–	By Balance	3,344	–	–

Dr. TOPPING (LOAN ACCOUNT). Cr.

To Cash	1,200	–	–	By Balance	1,200	–	–

Dr. TOPPING.—CAPITAL ACCOUNT. Cr.

To Realisation A/c, ⅔ Loss	1,358	–	–	By Balance	4,025	–	–
„ Cash	2,667	–	–				
	4,025	–	–		4,025	–	–

Dr. BOTTOMLY.—CAPITAL ACCOUNT. Cr.

To Realisation A/c, ⅓ Loss	679	–	–	By Balance	2,275	–	–
„ Cash	1,596	–	–				
	2,275	–	–		2,275	–	–

(3) Loss on Realisation, necessitating the partners bringing in cash to meet their deficits, and so enabling the creditors to be paid in full.

Example.—High and Lowe are in partnership sharing profits and

losses three-fifths and two-fifths respectively. At the date of dissolution their capitals are High £765, and Lowe £430. The Creditors amount to £2,750. The balance of Cash in hand is £76, while the other assets realise £2,543, the expenses of winding up being £54. The partners bring in cash to meet their respective deficits. Close the books of the firm, showing the Ledger Accounts.

Dr. CASH BOOK. *Cr.*

To Balance	76	–	–	By Realisation A/c (Expenses)	54	–	–
„ Realisation A/c (Proceeds of Sale of Assets)	2,543	–	–	„ Sundry Creditors	2,750	–	–
„ High, Capital A/c (Cash brought in)	63	–	–				
„ Lowe, Capital A/c (Cash brought in)	122	–	–				
	2,804	–	–		2,804	–	–

Dr. REALISATION ACCOUNT. *Cr.*

To Sundry Assets	3,869	–	–	By Cash (Proceeds of Sale)	2,543	–	–
„ Cash (Expenses)	54	–	–	„ Capital A/cs (loss)—			
				High ⅜, £828			
				Lowe ⅛, 552			
					1,380	–	–
	3,923	–	–		3,923	–	–

Dr. SUNDRY CREDITORS. *Cr.*

To Cash	2,750	–	–	By Balance	2,750	–	–

Dr. HIGH.—CAPITAL ACCOUNT. *Cr.*

To Realisation A/c (⅜ of Loss)	828	–	–	By Balance	765	–	–
				„ Cash	63	–	–
	828	–	–		828	–	–

Dr. LOWE.—CAPITAL ACCOUNT. *Cr.*

To Realisation A/c (⅛ of Loss)	552	–	–	By Balance	430	–	–
				„ Cash	122	–	–
	552	–	–		552	–	–

Note.—With this example the student finds himself confronted at the outset with the difficulty of ascertaining the book value of the Assets that were sold. Such a difficulty often presents itself in connection with examination work. It is solved as follows: The total of the Liabilities side of the Balance Sheet was £3,945 (£765 + £430 + £2,750). Inasmuch as the two

sides of the Balance Sheet equal each other, the total value of the Assets must have been £3,945; and since the Cash in hand was £76, the book value of the other Assets must have amounted to £3,869 (£3,945 less £76).

(4) A Loss on Realisation, some partners being solvent and some insolvent, necessitating the rule of Garner *v.* Murray being applied.

Example.—A, B, and C are in partnership, sharing profits and losses three-sixths, two-sixths, and one-sixth respectively. The state of affairs at the date of dissolution is as follows :—

BALANCE SHEET.

Liabilities.				*Assets.*			
Sundry Creditors	3,875	–	–	Cash	986	–	–
A (Loan A/c)	250	–	–	Sundry Debtors	3,056	–	–
Capital A/cs—				Stock	1,844	–	–
A	1,520	–	–	Fixtures and Fittings	720	–	–
B	1,120	–	–	C, Capital A/c (Dr. balance)	159	–	–
	6,765	–	–		6,765	–	–

The assets other than Cash realised £4,844, and the expenses of winding up are £52. A and B are solvent, but C is unable to bring in anything. Make the necessary adjustments, and draw up a Balance Sheet showing the position of affairs before applying the *Garner* v. *Murray* rule, after which close the books of the firm showing the Ledger Accounts.

Dr. CASH BOOK. *Cr.*

To Balance	986	–	–	By Realisation A/c (Expenses)	52	–	–
„ Realisation A/c (Proceeds of Sale of Assets)	4,844	–	–	„ Sundry Creditors	3,875	–	–
„ Deficiency A/c (Cash brought in)—				„ A (Loan A/c)	250	–	–
A	414	–	–	„ Balance c/d	2,343	–	–
B	276	–	–				
	6,520	–	–		6,520	–	–
To Balance b/d	2,343	–	–				

Dr. REALISATION ACCOUNT. *Cr.*

To Sundry Assets	5,620	–	–	By Cash (Proceeds of Sale)	4,844	–	–
„ Cash (Expenses)	52	–	–	„ Deficiency A/c (transfer)—			
				A (3/6) £414			
				B (2/6) 276			
				C (1/6) 138			
					828	–	–
	5,672	–	–		5,672	–	–

Dr. SUNDRY CREDITORS. *Cr.*

To Cash . .	3,875	–	–	By Balance . .	3,875	–	–

Dr. A.—LOAN ACCOUNT. *Cr.*

To Cash . .	250	–	–	By Balance . .	250	–	–

Dr. DEFICIENCY ACCOUNT. *Cr.*

To Realisation A/c, loss b/f . .	828	–	–	By Cash—			
				A . .	414	–	–
				B . .	276	–	–
				„ Balance c/d .	138	–	–
	828	–	–		828	–	–
To Balance b/d .	138	–	–				

The position of affairs before the solvent partners paid in their shares of the firm's Deficiency was as follows:—

BALANCE SHEET.

Liabilities.				*Assets.*			
Capital A/cs—				Cash	1,653	–	–
A	1,520	–	–	C—Overdrawn	159	–	–
B	1,120	–	–	Deficiency of Firm (loss on Realisation) . . .	828	–	–
	2,640	–	–		2,640	–	–

which subsequently becomes:—

BALANCE SHEET.

Liabilities.				*Assets.*			
Capital A/cs—				Cash	2,343	–	–
A	1,520	–	–	C—			
B	1,120	–	–	Capital A/c Overdrawn . £159			
				Share of Deficiency . . 138			
					297	–	–
	2,640	–	–		2,640	–	–

Applying the *Garner* v. *Murray* rule, the solvent partners will receive and lose the following amounts:—

Partners.	Receive.	Lose.
A . .	$\frac{1520}{2640}$ of £2,343 = £1,349	$\frac{1520}{2640}$ of £297 = £171
B . .	$\frac{1120}{2640}$ of £2,343 = £ 994	$\frac{1120}{2640}$ of £297 = £126

And the Ledger Accounts will be as follows :—

Dr. **A.—CAPITAL ACCOUNT.** *Cr.*

To Cash	1,349	–	–	By Balance	1,520	–	–
„ Transfer from C's A/c	171	–	–				
	1,520	–	–		1,520	–	–

Dr. **B.—CAPITAL ACCOUNT.** *Cr.*

To Cash	994	–	–	By Balance	1,120	–	–
„ Transfer from C's A/c	126	–	–				
	1,120	–	–		1,120	–	–

Dr. **C.—CAPITAL ACCOUNT.** *Cr.*

To Capital A/c (Overdrawn)	159	–	–	By Transfer to—			
„ Share of Firm's Deficiency	138	–	–	A, Capital A/c	171	–	–
				B, Capital A/c	126	–	–
	297	–	–		297	–	–

Dr. **CASH BOOK.** *Cr.*

To Balance	2,343	–	–	By Capital A/cs—			
				A	1,349	–	–
				B	994	–	–
	2,343	–	–		2,343	–	–

Procedure prior to Garner v. Murray Decision.—Prior to the *Garner* v. *Murray* decision, it was thought that the amount overdrawn by the insolvent partner, together with his share of the firm's deficiency constituted a loss to be treated like ordinary partnership trading losses, *i.e.*, to be borne by the solvent partners in the same *relative* proportions in which they shared profits. For the sake of illustration consider the previous example, the Balance Sheet of which would have appeared as follows :—

BALANCE SHEET.

Liabilities.				*Assets.*			
Capital A/cs—				Cash			2,343 – –
A	1,520	–	–	C. Capital—			
B	1,120	–	–	Overdrawn	159	–	–
				Share of Deficiency	138	–	–
							297 – –
	2,640	–	–				2,640 – –

A and B share profits in the ratio of 3 : 2, and would therefore bear the loss of the £297 in the proportions of three-fifths and two-fifths. Thus, the final result would have been as under :—

BALANCE SHEET.

Liabilities.						*Assets.*					
Capital Accounts—						Cash				2,343	– –
A	1,520	–	–								
Less ⅗ of £297	178	4	–								
				1,341	16 –						
B	1,120	–	–								
Less ⅖ of £297	118	16	–								
				1,001	4 –						
				2,343	– –					2,343	– –

Present Differences of Opinion re Garner v. Murray Decision.—Many accountants do not even now admit the solvent partners' obligation to bring in cash to make good their shares of the firm's deficiency. They merely bring the partners' contributions *into account, i.e.*, assume these amounts to be part of the cash available. It makes no difference to the final answer, as can be seen from the following, which represents their method of working the example in question. The position of affairs after realisation was as follows :—

BALANCE SHEET.

Liabilities.				*Assets.*			
Capital Accounts—				Cash	1,653	–	–
A	1,520	–	–	C.—Capital—Overdrawn	159	–	–
B	1,120	–	–	Deficiency of Firm (Loss on Realisation)	828	–	–
	2,640	–	–		2,640	–	–

Bringing the contributions into account, we arrive at the following position :—

BALANCE SHEET.

Liabilities.				*Assets.*			
Capital Accounts—				Cash	1,653	–	–
A	1,520	–	–	A's Contribution to Deficiency, ⅗ of £828	414	–	–
B	1,120	–	–	B's Contribution to Deficiency, ⅖ of £828	276	–	–
					2,343	–	–
				C—Overdrawn £159			
				Share of Deficiency, ⅓ of £828 138			
					297	–	–
	2,640	–	–		2,640	–	–

We have now fixed the amount of cash available, which must be applied to the repayment of the partners' capitals *pro rata*. The final statement showing how much each partner will receive is, therefore, as under :—

FINAL STATEMENT

Amounts due to Partners in respect of Capital—				Cash	1,653	– –
A—						
$\frac{13}{23}$ of £2,343 = £1,349						
Less Contribution due 414						
	935	–	–			
B—						
$\frac{10}{23}$ of £2,343 = £994						
Less Contribution due 276						
	718	–	–			
	1,653	–	–		1,653	– –

(5) A Loss on Realisation, and all the partners insolvent, the Creditors being paid a dividend.

Example.—Jones and Brown are in partnership, sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution :—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	6,270	–	–	Cash	405	–	–
Capital Accounts—				Sundry Debtors	2,342	–	–
Jones	2,100	–	–	Stock	2,070	–	–
Brown	1,200	–	–	Fixtures and Fittings	1,486	–	–
				Goodwill	3,267	–	–
	9,570	–	–		9,570	–	–

The Assets other than Cash realise £4,465, and the expenses of winding up are £176. Close the books of the firm.

Dr. CASH BOOK. *Cr.*

To Balance	405	–	–	By Realisation A/c (Expenses)	176	–	–
„ Realisation A/c (Proceeds of Sale of Assets)	4,465	–	–	„ Sundry Creditors— Dividend of approx. 14s. 11½d. in the £ on £6,270	4,694	–	–
	4,870	–	–		4,870	–	–

Dr. REALISATION ACCOUNT. *Cr.*

To Sundry Assets	9,165	–	–	By Cash (Proceeds of Sale)	4,465	–	–
„ Cash (Expenses)	176	–	–	„ Balance (loss carried to Profit and Loss A/c)	4,876	–	–
	9,341	–	–		9,341	–	–

Dr. SUNDRY CREDITORS. *Cr.*

To Cash (Dividend of approx. 14s. 11¾d. in £)	4,694	–	–	By Balance	6,270	–	–
„ Balance transferred to Profit and Loss A/c	1,576	–	–				
	6,270	–	–		6,270	–	–

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Realisation A/c—(balance brought forward)	4,876	–	–	By Balance from Sundry Crs. A/c	1,576	–	–
				„ Capital A/cs—Jones ⅔ £2,200			
				Brown ⅓ 1,100	3,300	–	–
	4,876	–	–		4,876	–	–

Dr. JONES.—CAPITAL ACCOUNT. *Cr.*

To Profit and Loss A/c	2,200	–	–	By Balance	2,100	–	–
				„ Balance c/d	100	–	–
	2,200	–	–		2,200	–	–
To Balance b/d	100	–	–	By Brown Capital A/c (transfer)	100	–	–

Dr. BROWN.—CAPITAL ACCOUNT. *Cr.*

To Profit and Loss A/c	1,100	–	–	By Balance	1,200	–	–
„ Balance c/d	100	–	–				
	1,200	–	–		1,200	–	–
To Jones Capital A/c (transfer)	100	–	–	By Balance b/d	100	–	–

Note.—In this case a Profit and Loss Account is opened, debited with the loss on realisation, and credited with the unpaid balance of the Creditors' Account, which makes a paper profit. The balance of the Profit and Loss Account is carried to the Capital Accounts in the usual way. The Capital Accounts are then closed by transfer of their corresponding but opposite balances.

Alternative Form of Realisation Account.—In some cases the Asset Accounts are not closed by transfer to a Realisation Account but are left open. The cash received for the assets is debited in the Cash Book and credited to the various Asset Accounts, the balances of which, representing either gains or losses, are carried to a Realisation Profit and Loss Account. The actual gain or loss on each asset is thus easily perceived.

Example.—Smith and Roff are equal partners in a retail concern. They decide to retire, and sell their business on 31st Dec., the position of affairs on this date being as follows :—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	720	–	–	Cash at Bank	620	–	–
Capital Accounts—				Sundry Debtors	1,670	–	–
Smith	3,500	–	–	Stock-in-trade	2,480	–	–
Roff	2,500	–	–	Lease	1,300	–	–
				Fixtures and Fittings	650	–	–
	6,720	–	–		6,720	–	–

The Lease was sold for £1,650, Fixtures and Fittings for £725, and Stock for £2,450. The Book Debts realised only £1,550, £45 being allowed for Discount. The Creditors were paid £700 in full settlement. The Expenses of winding up were £55. Close the books of the firm, showing the result of the realisation, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

Dr. LEASE. *Cr.*

19—					19—				
Jan. 1	To Balance	1,300	–	–	Dec. 31	By Cash	1,650	–	–
Dec. 31	„ Realisation A/c (gain)	350	–	–					
		1,650	–	–			1,650	–	–

Dr. FIXTURES AND FITTINGS. *Cr.*

19—					19—				
Jan. 1	To Balance	650	–	–	Dec. 31	By Cash	725	–	–
Dec. 31	„ Realisation A/c (gain)	75	–	–					
		725	–	–			725	–	–

Dr. SUNDRY DEBTORS. *Cr.*

19—					19—				
Jan. 1	To Balance	1,670	–	–	Dec. 31	By Cash	1,550	–	–
					"	„ Discount	45	–	–
					„	„ Bad Debts	75	–	–
		1,670	–	–			1,670	–	–

Dr. **STOCK.** *Cr.*

19—					19—				
Jan. 1	To Balance	2,480	–	–	Dec. 31	By Cash	2,450	–	–
					"	" Realisation A/c (loss)	30	–	–
		2,480	–	–			2,480	–	–

Dr. **SUNDRY CREDITORS.** *Cr.*

19—					19—				
Dec. 31	To Cash	700	–	–	Jan. 1	By Balance	720	–	–
"	" Discount	20	–	–					
		720	–	–			720	–	–

Dr. **BAD DEBTS.** *Cr.*

19—					19—				
Dec. 31	To Sundry Debtors	75	–	–	Dec. 31	By Realisation A/c (loss)	75	–	–

Dr. **DISCOUNTS RECEIVED.** *Cr.*

19—					19—				
Dec. 31	To Realisation A/c (gain)	20	–	–	Dec. 31	By Sundry Crs.	20	–	–

Dr. **DISCOUNTS ALLOWED.** *Cr.*

19—					19—				
Dec. 31	To Sundry Drs.	45	–	–	Dec. 31	By Realisation A/c (loss)	45	–	–

Dr. **REALISATION PROFIT AND LOSS ACCOUNT.** *Cr.*

19—	*Losses.*				19—	*Gains.*			
Dec. 31	To Stock	30	–	–	Dec. 31	By Lease	350	–	–
	" Discounts allowed	45	–	–	"	" Fixtures and Fittings	75	–	–
	" Bad Debts	75	–	–	"	" Discounts Received	20	–	–
	" Cash (Expenses)	55	–	–					
	" Capital A/cs (net gain)—								
	Smith ½ £120								
	Roff ½ 120								
		240	–	–					
		445	–	–			445	–	–

Dr. **SMITH.—CAPITAL ACCOUNT.** *Cr.*

19—					19—				
Dec. 31	To Cash	3,620	–	–	Jan. 1	By Balance	3,500	–	–
					Dec. 31	" Realisation A/c (½ profit)	120	–	–
		3,620	–	–			3,620	–	–

Dr. ROFF.—CAPITAL ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Cash	2,620	–	–	Jan. 1	By Balance	2,500	–	–
					Dec. 31	„ Realisation A/c (⅓ profit)	120	–	–
		2,620	–	–			2,620	–	–

Dr. CASH BOOK. *Cr.*

To Balance	620	–	–	By Sundry Creditors	700	–	–
„ Lease	1,650	–	–	„ Realisation A/c (Expenses of Winding up)	55	–	–
„ Fixtures and Fittings	725	–	–				
„ Sundry Debtors	1,550	–	–	„ Capital A/cs—			
„ Stock	2,450	–	–	Roff £3,620			
				Smith 2,620			
					6,240	–	–
	6,995	–	–		6,995	–	–

QUESTIONS ON CHAPTER XI

1. In what three ordinary ways may a partnership be dissolved?
2. Explain what effect the following have upon the duration of a partnership: (*a*) Bankruptcy; (*b*) death; (*c*) charge; (*d*) illegality.
3. In what six cases can a dissolution of partnership be decreed by the Court?
4. What notice must be given to creditors and others when a dissolution or change of partnership takes place?
5. Explain what is meant by the "continuing authority of partners for winding up purposes."
6. State the legal rule for adjusting losses, and distributing assets, on the dissolution of a partnership, where no agreement to the contrary exists.
7. Submit a formula for dealing in the books with an ordinary dissolution of partnership.
8. When the result of a dissolution is to place a partner's Capital Account temporarily in debit, what is that partner's duty with reference to same?
9. Explain briefly the *Garner* v. *Murray* decision, and the consequent treatment of accounts in the books.
10. When, on a dissolution of partnership, the assets realise only sufficient to pay the creditors a dividend, how are the accounts in the books closed?

EXERCISE XI

1. Messrs. Black & White were equal partners in a retail boot shop. They decided to retire and dispose of their business as on 31st December. At the close of the year their Balance Sheet was as follows:—

BALANCE SHEET

B. Black, Capital A/c	£3,050	Lease	£1,250
W. White „	960	Fixtures	220
Sundry Creditors	480	Sundry Debtors	340
		Stock	2,060
		Cash at Bank	120
	£4,490		£4,490

The Lease and Fixtures were disposed of for £2,700, and the cash duly received. The Book Debts were collected, and realised £752. The stock was sold by auction and produced £1,340 after payment of commission and expenses. The Sundry Creditors were paid off, £38 being allowed for discount. The expenses of realisation amounted to £87.

As book-keeper to the firm, prepare whatever accounts may be necessary to show the result of the realisation and the amount receivable by each partner.—(*London Chamber of Commerce.*)

2. Black & White are equal partners, and their Balance Sheet stands as follows:—

Assets: Cash, £400; Debtors, £2,000; Stock, £1,500; Machinery, £2,000.

Liabilities: Creditors, £1,800; Black's Capital, £2,900; White's Capital, £1,200.

They decide to dissolve partnership, and the assets realise the following amounts: Debtors, £1,880; Stock, £1,200; Machinery, £1,800. They receive £100 as Discounts from Creditors, and the expenses of realisation amount to £230. Prepare Ledger accounts showing the result of the winding up.—(*National Union of Teachers.*)

3. Black & White have been in business together for three years ending 31st December, at which date they agree to dissolve partnership. Black takes over the business and agrees to pay White £1,800 for his share of the Goodwill.

Black has drawn out £500 each year and White £650 each year. Black's capital at the start was £3,000 and White's £4,000.

The profits of each year were £1,000, £1,200, and £1,350 respectively. There was no deed of partnership and no arrangement as to interest on Capital. Draft Capital Accounts (in White's show the amount he will receive on going out), Profit and Loss Account in Black & White's books, and Goodwill Account in Black's books.—(*National Union of Teachers.*)

4. The position of a business firm is as follows:—

BALANCE SHEET

Liabilities.		*Assets.*	
Creditors	£2,020	Cash at Bank	£1,530
Capital Accounts—		Debtors	2,466
Robinson	3,120	Stock	3,754
Larkin	2,760	Goodwill	2,300
Sparrow	2,150		
	£10,050		£10,050

The partnership is dissolved, the assets realised, and the creditors duly discharged. What will be the share of each partner:—

(*a*) If the assets realise their book value, and the partners share profits equally?

(*b*) If the Debtors realise £2,400; Stock, £3,800; Goodwill, £2,500; and partners share profits in the proportions of 5, 4, and 3?

(*c*) If the Debtors realise £2,200; Stock, £3,198; and partners share profits equally?

5. Hawker & Haigh are in partnership, sharing profits and losses ⅘ths and ⅕th respectively. They dissolve partnership, and their Capitals on this date are: Hawker, £3,700; and Haigh, £550. The total liabilities of

the firm amount to £6,000; which sum includes £1,500 due to Hawker for Advances, and £250 due to Haigh for Advances. The assets of the firm realise net £7,230. Draw up accounts showing the final result of the realisation and the amounts receivable by the partners respectively.

6. Rogers & Hawley are in partnership, sharing profits and losses $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively. Rogers' Capital is £8,500 and Hawley's is £5,500. The partnership is dissolved and the assets realised with the following results:—

	£		£
Debtors	9,020	produced	8,835
Stock	4,650	,,	4,460
Plant and Machinery	3,850	,,	3,700
Lease	2,000	,,	2,000

The expenses of winding up were £110. Out of the Cash at Bank, together with the sum realised by the assets, the Creditors' claims amounting to £7,520 were duly discharged. Draw up the necessary accounts to show the final result of the realisation and the amounts received by the partners respectively.

7. Linton, Price & Westerby dissolve partnership and realise the assets. After realisation, the firm's Bank balance stood at £16,144. The Capital Accounts of the partners are: Linton, £5,000; Price, £4,000; Westerbyl £3,000. Linton had also advanced £650 to the firm by way of Loan. The Creditors amount to £6,230. The partners share profits and losses in proportion to their Capitals. How should the £16,144 be distributed?

8. Wood, Harrison & Batty are partners, and divide profits in the proportions of 4, 3, and 2 respectively. The partnership is dissolved, and the state of affairs on date of dissolution is as follows:—

BALANCE SHEET

Liabilities.		*Assets.*	
Creditors	£2,755	Cash at Bank	£475
Capital Accounts—		Bills Receivable	150
Wood	5,000	Debtors	8,420
Harrison	3,500	Stock	2,360
Batty	2,500	Plant	2,350
	£13,755		£13,755

The assets realise £437 less than their book value. The expenses of winding up are £85. What amounts are payable to the partners respectively?

9. Partridge & Paterson entered into partnership for five years, and shared profits and losses as 2 to 1. Partridge's initial Capital was £3,500 and Paterson's £850. The partnership deed provided that on the termination of the co-partnery the proceeds of realisation, after liquidating the Creditors' claims, should be divided according to the partners' shares and interests therein. Accounts have been drawn up annually, and profits, losses, and drawings have been duly adjusted. At the end of the fifth year, Partridge's Capital is £4,000 and Paterson's £450. The balance of Cash remaining after paying all expenses and the Creditors amounts to £2,020. Adjust the partners' Capital Accounts.

10. Finchley & Williams dissolve partnership. The business is sold for £13,660 net, and this amount stands to the credit of the firm's banking account. The Capitals of Finchley & Williams are £5,450 and £1,800 respectively. Finchley has also advanced to the firm £1,500 by way of

Loan. The Creditors' claims amount to £4,520. The partners share profits and losses; Finchley ⅔rds; and Williams ⅓rd. How should the £13,660 be distributed?

11. X, Y & Z dissolve partnership, and, after realisation, the following is the position of affairs:—

BALANCE SHEET

Liabilities.		*Assets.*	
Creditors	£464	Cash at Bank	£11,550
Capital Accounts—		Z—Capital Account overdrawn	434
X	6,000		
Y	5,000		
Profit on Realisation	520		
	£11,984		£11,984

The partners share profits and losses as follows: X, ½; Y, $\frac{3}{10}$; and Z, ⅕. Z is quite unable to contribute anything. Draw up the final accounts.

12. The partnership of X, Y & Z came to an end on 25th April. X's Capital was £6,600; Y's, £4,400; while Z had overdrawn to the extent of £350. Profits and losses were shared in the proportions of 3, 2, and 1. The assets were: Cash at Bank, £425; Bills Receivable, £950; Debtors, £6,730; Plant, £3,500; Stock, £3,500. The liabilities were: Bills Payable, £805; Bank Overdraft, £2,000; Creditors, £1,650. Z is insolvent, but his partners recover £90 from his separate estate. The assets realised the following sums: Bills Receivable, £925; Debtors, £6,500; Plant, £3,000; Stock, £3,300. The expenses of winding up amounted to £185. Draw up the final accounts, and show what each partner will receive.

13. The partnership of A, B & C came to an end on 31st Dec. The Capital of A was £5,000, and of B £4,000, while C's account was overdrawn to the extent of £500, and he had no outside means. Profits and Losses were shared in the proportions of A ½, B⅓, and C⅙. Their assets amounted to £8,870, and their liabilities to £370. The business was sold for £10,000. Show the partners' accounts after the sale had been effected.—(*Chartered Accountants.*)

14. Hawker, Joycelyn, and Temple are in partnership, sharing profits and losses three-sevenths, two-sevenths, and two-sevenths respectively. The following is the position of affairs after dissolution and realisation:—

BALANCE SHEET

Liabilities.				*Assets.*			
Capital Accounts—				Cash	900	–	–
Hawker	1,800	–	–	Temple—Overdrawn	200	–	–
Joycelyn	Nil			Deficiency of Firm	700	–	–
	1,800	–	–		1,800	–	–

Temple is insolvent and unable to contribute anything. Prepare final accounts showing the amount of Cash received by Hawker.

15. The following is the final position after dissolution of a partnership :—

BALANCE SHEET

Liabilities.				*Assets.*			
Capital Account—				Cash	1,000	–	–
Hawkins	1,500	–	–	Templar—Overdrawn	300	–	–
				Joyce—Overdrawn	200	–	–
	1,500	–	–		1,500	–	–

What is the position and procedure if Templar and Joyce are (*a*) solvent and able to contribute their deficits, (*b*) able to contribute part of their overdrafts, (*c*) unable to contribute anything ?

16.—Brown, Jones, and Robinson were in partnership as Coal Merchants. On 31st Dec., their Balance Sheet showed the following position of affairs :—

Liabilities.		£	*Assets.*	£
Sundry Creditors		3,000	Cash in hand and at Bank	1,400
Loan on Mortgage		400	Sundry Debtors	4,000
Brown—Capital A/c	£2,500		Stock	1,500
Drawing A/c	1,000		Horses, Carts, etc.	500
		3,500	Freehold Property	1,000
Jones—Capital A/c	£1,500		Robinson—Overdrawn	500
Drawing A/c	500			
		2,000		
		£8,900		£8,900

They shared profits and losses in the proportions of Brown one-half, Jones one-third, Robinson one-sixth. It was decided to dissolve the partnership as at the date of the above Balance Sheet. The Freehold Property realised £1,300. Bad Debts and Discounts allowed amounted to £500. The Stock realised £1,200, and the Horses, Carts, etc., £300. The mortgage on the property was duly paid off. The Creditors were also paid, less discounts amounting to £100. The costs of realisation amounted to £300. After the assets had been realised and all the liabilities discharged, Robinson became bankrupt, and a claim was made against his estate for the amount due from him to the firm on the dissolution, and a dividend thereon at the rate of 6s. 8d. in the £ was received. Write up the Realisation Account, the Cash Account, and the Capital and Drawing Accounts of the partners, and close the books of the firm.—(*Chartered Accountants.*)

17. Morgan and Newell are in partnership sharing profits and losses two-thirds and one-third respectively. The following is the state of affairs at the date of dissolution :—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	12,000	–	–	Cash	900	–	–
Capital Accounts—				Sundry Debtors	4,082	–	–
Morgan	4,720	–	–	Stock	4,320	–	–
Newell	2,462	–	–	Fixtures and Fittings	3,080	–	–
				Goodwill	6,800	–	–
	19,182	–	–		19,182	–	–

The assets, other than Cash, realise £8,600, and the expenses of winding up are £300. Close the books of the firm. It is assumed that nothing is forthcoming from the private estates of the partners.

18. Wyatt and Dawson are equal partners in a retail concern. They decide to retire, and sell their business on 31st Dec., the position of affairs on this date being as follows :—

BALANCE SHEET

Liabilities.				*Assets.*			
Sundry Creditors	900	–	–	Cash at Bank	1,000	–	–
Capital Accounts—				Sundry Debtors	1,900	–	–
Wyatt	6,000	–	–	Stock	5,000	–	–
Dawson	4,000	–	–	Fixtures and Fittings	1,000	–	–
				Lease	2,000	–	–
	10,900	–	–		10,900	–	–

The Lease was sold for £3,000, Fixtures for £1,100, and Stock for £4,600. The Book Debts realised only £1,800, £60 being allowed for discount. The Creditors were paid £860 in full settlement. The expenses of winding up were £64. Close the books of the firm, showing the result of the realisation, and detailing the various Ledger Accounts. Show also the payment to each partner of the amount actually due to him.

REVISION EXERCISE XI

1. Explain briefly, but clearly, what is considered to be the best system of book-keeping, and state the use and object of a Journal, and in what countries, if any, its use in trading houses is made imperative. —(*London Chamber of Commerce.*)

2. Prepare, and fill in the headings of a Day Book suitable for a City Trader, which will answer the purpose of a Purchase and Sales Journal; and prepare also a form of Cash Book which you would advise being used so as to save clerk's time and labour in posting.—(*London Chamber of Commerce.*)

3. I buy goods on the 1st March, dated forward as June. I make up my accounts on the 30th April. How should I deal with this item in my Purchases Day Book, Ledger, and Balance Sheet ?—(*Lancashire and Cheshire Union.*)

4. You are instructed to organise the book-keeping department of a small factory. What books of account would you advise as necessary, and what rules would you lay down for the guidance of the staff and to ensure that the books are kept accurately and well up to date ? Assuming that the clerks are three in number, mention what duties you would allot to each ? —(*London Chamber of Commerce.*)

5. Bought Goods on Joint Account with R. Roberts (profits divisible equally) from Walker & Co. for £1,050. Paid Cartage and Expenses, £55. Received R. Roberts's moiety of speculation, £525. Sold part of the goods to Marshman & Co. for £650, part for Cash £450, and took remainder value £400 into stock for my own use. Charged, as manager's commission, 5% on the Sales.

Make the necessary entries in the proper books to record the above, and show the Joint Account in the Ledger.

6. A merchant has bought goods due as under:—

£440 due 73 days before 30th June.
£250 „ 37 „ „ „
£400 „ on 30th June.
£700 „ 18 days after 30th June.

He wishes to pay for them on the average due date. What sum must he pay, and when must he pay it?

7. Jones, a trader, finding that, owing to his liabilities, he was unable to successfully carry on his business, executed a Deed of Assignment on 30th June in favour of his creditors, under which the creditors agreed to accept 1s. in the £ in full satisfaction of their debts. Brown, the largest creditor (his debt amounting to £1,000), arranged with Jones to take over the business and to pay in £300 in cash, in order to provide sufficient to pay the 1s. in the £ to the creditors, other than himself, and to furnish the necessary working capital for carrying on the business; and a legal agreement was, in due course, entered into between Brown and Jones whereby it was agreed that Brown should carry on the business until such time as Brown should, from profits earned, have recouped himself his old debt of £1,000 and the £300 advanced by him to Jones, together with the further sums it might be necessary for him to pay in, in order to carry on the business. Jones was to manage the business during that time at a salary of £1 10s. a week and 5% commission on the net profits. When the profits had reached the amount necessary to recoup Brown for his original debt and subsequent advances, it was agreed that the business should revert to Jones. The Creditors on 30th June, including Brown, amounted to £4,000; the Debtors, which were all presumed to be good, to £500; the Stock was valued at £200 and the Furniture and Fixtures at £20. Make the Journal entries necessary for opening the new books for Brown, as on 30th June. Presuming that, on 31st December, Brown's books showed Creditors of £80 (not including Jones' commission for the half-year); Debtors of £700; Furniture and Fixtures, after additions and depreciation had been taken into consideration, of £25; and Cash at the Bank and in hand, £200: draw Brown's Balance Sheet as on that date, taking the Stock at a valuation of £150. It is necessary, in accordance with the terms of the agreement, for the Balance Sheet to show the amount then due to Brown.—(*Royal Society of Arts.*)

8. Messrs. Cooper & Son keep their Ledgers on the self-balancing system. From the following particulars, prepare the relative "Sales Ledger" and "General Ledger" Adjustment Accounts as at 31st March:—

	£	s.	d.
Debtors' Balances as at 1st March	19,846	10	5
Total Credit Sales for month	18,755	11	6
„ Cash received from Customers for month	12,974	3	10
„ Discount allowed to Customers for month	598	15	8
Bills accepted by Customers during month	4,651	6	9
Goods returned by Customers during month	474	8	7
Acceptances dishonoured by Customers during month	326	17	5
Transfers during month from Contra Accounts in the Bought Ledger	156	4	11
Items charged to Customers, during the month, from Petty Cash Book	26	13	4

9. Messrs. Farmer & Right (who share profits $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively) had the following balances in their books on 31st December:—

	£	s.	d.
Acceptances to Creditors	997	12	–
Salaries, Travellers, etc.	780	–	–
Discounts Received	276	–	–
Cash at Bank	929	10	6
„ in hand	30	10	6
„ Creditor	2,000	–	–
Bad Debts Reserve, 1st January	129	–	–
Suspense Account (*Dr.* balance)	55	–	–
F. Farmer—Capital Account	4,620	–	–
R. Right— „ „	3,780	–	–
Purchases	5,866	–	–
Sales Ledger Balances	3,290	–	–
Stock, 1st January	4,195	–	–
Plant and Machinery	2,950	–	–
Rent, Rates, Taxes, etc.	566	–	–
Bad Debts	135	–	–
Carriage	279	–	–
Sundry Expenses	379	–	–
Manufacturing Wages	1,897	–	–
F. Farmer—Drawing Account	420	10	6
R. Right— „ „	320	10	6
Sales	11,680	–	–
Debtors' Acceptances	1,268	10	–
Discounts Allowed	426	–	–
Legal Expenses	35	–	–
Returns Outwards	816	–	–
Bought Ledger Balances	1,954	–	–
Returns Inwards	2,430	–	–

Prepare Trading and Profit and Loss Accounts and Balance Sheet as at 31st December, after making the following adjustments:—

Stock, 31st December, £5,692.
10% Depreciation on Plant.
£70 Interest due to Cash Creditor.
Bad Debts Reserve, 5% Debtors.
Reserves for Discounts on Debtors and Creditors, $3\frac{1}{4}$% and $2\frac{1}{2}$% respectively.
Interest on Capital at 5%.
£10 Fire Insurance (Sundry Expenses) to be carried forward.

Closing entries through the Journal are required, and also the percentages of gross and net profit on the turnover.

CHAPTER XII.

JOINT STOCK COMPANIES.

Definition.—A company is an association of persons for the purpose of carrying on trade or business, generally for mutual gain.

Joint Stock Company.—This is defined as "An association of individuals for the purposes of profit, possessing a common capital contributed by the members composing it, such capital being commonly divided into shares, of which each possesses one or more, and which are transferable by the owner."—*Shelford.*

The formation of joint stock companies in England, for trading and other purposes, dates back for more than three centuries. We see some notable examples in the seventeenth century in the East India Company, the Hudson Bay Company, the New River Company, and the Bank of England, which were incorporated by Royal Charter or by special Act of Parliament. Incorporation otherwise than by these two methods was not possible until 1844; while the principle of "limited liability" was not recognised till 1855. The Act of 1862 opened up a new era in the history of joint stock companies. The Companies Acts, 1862-1907, have now been superseded by the Companies Acts, 1908 to 1917.

Prohibition of Large Partnerships.—Companies not incorporated are, in the eyes of the law, nothing more than private partnerships. No partnership consisting of more than ten persons can be formed to carry on the business of banking, and no partnership consisting of more than twenty persons can be formed for the purpose of carrying on any other business which has for its object the acquisition of gain, without being registered as a company.

Difference between a Joint Stock Company and an Ordinary (Unlimited) Partnership.—The following differences should be carefully noted:—

(1) The individuality of the members who form a company is entirely lost in the personality of the company itself, which is regarded in law as a separate and distinct entity. Thus, a member of a company may enter into contracts with the company itself in the same manner as any other individual.

(2) In a company, the creditors can proceed only against the property of the company in case of necessity, and ordinarily there is no remedy beyond the amount of the fixed capital, which is, in fact, the total amount of the property of the legal person. In a partnership, the creditors may not only proceed against the property of the partnership, but also against the private property of each individual partner.

(3) In a public company, shares may be transferred without the consent of the other members, and without affecting its existence: this is not possible in a partnership.

(4) In the case of a limited company, the liability of each shareholder is limited to the amount unpaid on the shares which he holds ; in a partnership, each member is liable jointly and (*practically* though not *legally*) severally for the whole of the debts of the firm.

(5) In a partnership, the number of members must not exceed twenty, and in the case of a banking company, ten. In a limited company there is no such limit, except that there must not be less than seven persons in a public company, or less than two in a private one.

(6) In a partnership, each partner can take part in the management, and his actions are legally binding on the firm ; but in a company, the rights of management are restricted to a special body of shareholders called directors.

(7) In a partnership, the rights of the members are regulated by the Deed of Partnership, and may be altered by mutual agreement. In a limited company, the powers of the company are governed by the Memorandum of Association, which cannot be altered except by consent of the Court ; and the powers of the directors are regulated by the Articles, which can only be altered by special resolution of the shareholders.

(8) The law prescribes an annual audit for a limited company, but not for a partnership.

(9) The capital of a private firm may be increased by additions and by profits, or decreased by withdrawals and losses, or altered by mutual agreement. The capital of a company is fixed by the Memorandum, is unaffected by trading profits or losses, and can only be increased or decreased in a special statutory manner.

Mode of Forming a Company.—Any seven or more persons (or, where the company to be formed will be a private one within the meaning of the Act, any two or more persons) associated for any lawful purpose may, by subscribing their names to a Memorandum of Association, and otherwise complying with the requirements of the Act in respect of registration, form an incorporated company.

Kinds of Companies.—There are three kinds of companies which may be constituted and incorporated under the Companies Acts :—

(1) **Company Limited by Shares.**—This is a company having the liability of its members limited by the Memorandum to the amount, if any, unpaid on the shares respectively held by them. Once the capital is fully paid up, there is no further liability resting on the shareholder. This class is subdivided into public and private companies.

(2) **Company Limited by Guarantee.**—This is a company having the liability of its members limited by the Memorandum to such amount as the members may respectively thereby undertake to contribute to the assets of the company in the event of its being wound up. There are only a few companies of this class in existence.

(3) **Unlimited Company.**—This is a company not having any limit on the liability of its members. Every shareholder is thus liable for the debts of the company as in an ordinary partnership. Such a company possesses, however, two advantages : (*a*) The liability of each member ceases at the end of a year from the time he ceases to be a member ; (*b*) the shares of the company are transferable.

Such companies are now extremely rare, and for several years past none have been registered.

Number of Persons.—The legal minimum number of persons that can form a public joint stock company is seven, or, in the case of a private company, two. The maximum number for a private company is fifty, and for a public company the maximum can never exceed the number of shares, as each member must, by law, take not less than one share. If a company carries on business for more than six months after the number of its members has been reduced below seven, or two, as the case may be, every member cognisant of the fact is personally liable for the whole of the debts of the company contracted during that time.

Public Company.—A public joint stock company is one which offers its shares to the public for subscription.

One Man Company.—This is a term applied to a company in which almost the whole of the shares are held by one person, the remainder being allotted to nominees or a nominee in order to make up the statutory number. This is generally the case where a successful business has been converted into a company in order to gain the advantages of incorporation, namely, the continuance of the business after the death of any of the parties interested in it, the power of transferring the shares in order to introduce fresh members, and the increased facility of borrowing money. Such a company was formerly called a "private company." The latter term, however, has now a statutory meaning under the 1908 and 1913 Acts.

Private Company.—By Section 121 of the Companies (Consolidation) Act, 1908, as amended by the Act of 1913, a private joint stock company is one which by its Articles:—

(1) Restricts the right to transfer its shares;

(2) Limits the number of its members (exclusive of persons who are in the employment of the company and ex-employees) to fifty;

(3) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Unless the Memorandum or Articles expressly forbid it, a private company may turn itself into a public company by passing a special resolution, and filing with the registrar of companies the prescribed statement in lieu of prospectus, together with the prescribed statutory declaration. And where two or more persons hold one or more shares jointly, they are, for the purposes of this section of the Act, to be treated as a single member.

Advantages of a Private Company.—A private company is exempt from several of the obligations and restrictions imposed on a public company:—

(1) The minimum number of members may be two instead of seven. (Section 2 C.C.A. 1908.)

(2) It is not obliged to file a statement in lieu of a prospectus. (Section 82.)
(3) The restrictions put upon the commencement of business, namely, the obtaining of the minimum subscription, waiting for the certificate entitling it to commence, etc., do not apply. (Section 87.)
(4) It is not required to file with the annual summary the prescribed financial statement in the form of a balance sheet. (Section 26.)
(5) The restrictions placed on the allotment of shares (Section 85), and on the appointment of directors (Section 72), do not apply.
(6) It is not obliged to forward to the members, or to file with the registrar of companies, the statutory report. (Section 65.)
(7) Holders of preference shares and debentures in a private company have not the right of those in a public company formed since the 1st of July, 1908, to receive and inspect the balance sheets and the auditors' reports. (Section 114.)

Memorandum of Association of a Company Limited by Shares.—The Memorandum must state:—

(1) The name of the company, with "Limited" as the last word in its name.

(2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.

(3) The objects of the company.

(4) That the liability of the members is limited.

(5) The amount of the share capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

No subscriber of the Memorandum may take less than one share, and each subscriber must write opposite to his name the number of shares he takes.

Memorandum of Association of a Company Limited by Guarantee.—The Memorandum must state:—

(1) The name of the company, with "Limited" as the last word in its name.

(2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.

(3) The objects of the company.

(4) That the liability of the members is limited.

(5) That each member undertakes to contribute to the assets of the company in the event of its being wound up while he is a member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a member, and of the costs, charges, and expenses of winding up, and for adjustment of the rights of the contributories among themselves, such amount as may be required, not exceeding a specified amount.

If the company has a share capital:—

(1) The Memorandum must also state the amount of share

capital with which the company proposes to be registered, and the division thereof into shares of a fixed amount.

(2) No subscriber of the Memorandum may take less than one share.

(3) Each subscriber must write opposite to his name the number of shares he takes.

Memorandum of Association of an Unlimited Company.—The Memorandum must state:—

(1) The name of the company.

(2) The part of the United Kingdom, whether England, Scotland, or Ireland, in which the registered office of the company is to be situate.

(3) The objects of the company.

If the company has a share capital:—

(1) No subscriber of the Memorandum may take less than one share.

(2) Each subscriber must write opposite to his name the number of shares he takes.

Name of Company.—A company may not be registered by a name identical with that by which a company in existence is already registered, or so nearly resembling that name as to be calculated to deceive, except where the company in existence is in the course of being dissolved and signifies its consent in such manner as the registrar requires. If, however, this should happen, through inadvertence or otherwise, the newly registered company may, with the consent of the registrar, change its name.

The prefix "Royal," "Imperial," or similar word may not be used without the written consent of the Home Secretary.

Any company may, by special resolution and with the approval of the Board of Trade signified in writing, change its name. The registrar will enter the new name on the register in place of the former name, and issue a certificate of incorporation altered to meet the circumstances.

Omission of "Limited" from Name of Company.—Where it is proved to the satisfaction of the Board of Trade that an association about to be formed as a limited company is to be formed for promoting commerce, art, science, religion, charity, or any other useful object, and intends to apply its profits (if any) or other income in promoting its objects, and to prohibit the payment of any dividend to its members, the Board of Trade may by licence direct that the association be registered as a company with limited liability, without the addition of the word "Limited" to its name. This licence may be granted on such conditions and subject to such regulations as the Board of Trade thinks fit, and may also be revoked by the Board of Trade.

Objects of Company.—The objects of a company must be set

forth with accuracy, as a company exists only for the purposes which are stated in its Memorandum of Association. Any act exceeding these powers is *ultra vires*, and, therefore, null and void.

A company may, by special resolution, alter the provisions of its Memorandum with respect to the objects of the company, so far as may be required to enable it:—

(1) To carry on its business more economically or efficiently; or

(2) To attain its main purposes by new or improved means; or

(3) To enlarge or change the local area of its operations; or

(4) To carry on some business which under existing circumstances may conveniently or advantageously be combined with the business of the company; or

(5) To restrict or abandon any of the objects specified in the Memorandum of Association.

The alteration, however, does not take effect until it has been confirmed wholly or in part by the Court, who will require it to be shown that the alteration is for the benefit of the company, and that the interests of all existing members and creditors are properly safeguarded. A printed copy of the Memorandum of Association, as altered, must then be forwarded to the registrar of companies for him to register and certify.

Articles of Association.—Companies which are limited by guarantee, and unlimited companies, *must* register Articles of Association along with the Memorandum. These are in reality a set of rules or by-laws drawn up to govern the internal working of a company. They regulate the issue of capital, the transfer and forfeiture of shares, the holding of meetings, prescribe for the keeping of the accounts and the audit of same, define the powers and duties of directors, the rights of shareholders *inter se*, etc. Form B in the Third Schedule to the Companies (Consolidation) Act, 1908, contains a set of Articles suitable for adoption by a company limited by guarantee.

Where a company limited by shares does not frame articles of its own, a model set of articles, called Table A, provided in the Companies (Consolidation) Act, 1908, becomes compulsory, and must be adopted by such company.

Articles of Association must be registered with the Memorandum of Association, and in the case of companies registered after the commencement of the 1908 Act with Articles of Association, such Articles must, by section 11, expressly exclude or modify the regulations in Table A; otherwise these will be held, where applicable, to be the regulations of the company. By section 12, Articles must (*a*) be printed, (*b*) be divided into paragraphs numbered consecutively, (*c*) bear a deed stamp, (*d*) be signed by each subscriber of the Memorandum of Association. Section 13 allows a company, by special resolution, to alter or add to its Articles. Any Article is

null and void in so far as it conflicts with the Memorandum of Association or with statute law. Any special resolution altering the Articles must be printed and forwarded to the registrar of companies to record within fifteen days of its confirmation. Such special resolution must also be embodied in or annexed to every copy of the Articles issued subsequently.

Registration of Memorandum and Articles.—The Memorandum and the Articles (if any) must each bear a 10s. deed stamp, and must be signed by each subscriber in the presence of at least one witness, who must attest the signature. They must then be forwarded to the registrar of companies for that part of the United Kingdom in which the registered office is stated by the Memorandum to be situate; and he will retain and register them. Every company must send to each member, at his request, and on payment of 1s. or such less sum as the company may prescribe, a copy of the Memorandum and of the Articles (if any) under penalty of a fine not exceeding £1.

Registration Fees.—In addition to the deed stamp of 10s., registration stamps are necessary, in the case of a company having a share capital, according to the following scale :—

	£	s.	d.
Where the nominal share capital does not exceed £2,000	2	–	–
Where the nominal share capital exceeds £2,000, the following fees according to the amount of nominal share capital :—			
For every £1,000 or part of £1,000 up to £5,000	1	–	–
For every £1,000 or part of £1,000 after the first £5,000 up to £100,000	–	5	–
For every £1,000 or part of £1,000 after the first £100,000	–	1	–
For any increase of share capital after the first registration, the same fees per £1,000 or part of £1,000 as would have been payable if the increased share capital had formed part of the original share capital			
No company to pay in respect of nominal share capital, on registration or afterwards, any greater amount of fees than	50	–	–
For registering any document required or authorised by the Act to be registered	–	5	–
For making a record of any fact required or authorised by the Act to be recorded by the registrar	–	5	–

There is also a Capital duty of 20s. per cent. imposed by the Finance Act, 1920.

The fees payable on the first registration are generally included in the item "Preliminary Expenses."

Preliminary Expenses.—These include the law costs, registration fees, printing of prospectuses and forms of application, advertising and other expenses incidental to the formation or promotion of a company. Hence they are also called **Formation Expenses** and **Promotion Expenses.** Such expenditure is, of course, Capital Expenditure; but it is usually written off to Revenue over a period

of years, three, five or seven, according as the amount is small, large, or very large. The balance of the account appears each year on the assets side of the Balance Sheet until the amount is finally extinguished.

Promoter.—This is the person who does the necessary preliminary work in forming or floating a company. The promoter stands in a fiduciary relationship towards the company he is floating, and must not therefore use his position to make any secret profit at the expense of the company. The promoter is personally liable for any acts done before the company is registered, and the company cannot subsequently ratify such acts.

Certificate of Incorporation.—On the registration of the Memorandum of Association of a company the registrar certifies under his hand that the company is incorporated, and, in the case of a limited company, that the company is limited. From the date of incorporation mentioned in the certificate of incorporation the subscribers of the Memorandum, together with such other persons as may from time to time become members of the company, form a body corporate by the name contained in the Memorandum, capable forthwith of exercising all the functions of an incorporated company, and having perpetual succession and a common seal, with power to hold lands, and with such liability on the part of the members to contribute to the assets of the company, in the event of its being wound up, as is mentioned in the Act.

The Certificate of incorporation given by the registrar in respect of any association is conclusive evidence that all the requirements of the Act in respect of registration, and of all matter precedent and incidental thereto, have been complied with, and that the association is a company authorised to be registered and duly registered under the Act. If the company is a private one, it is at liberty to commence business forthwith; but a public company cannot proceed further than the issue of its prospectus inviting the public to apply for its shares.

Prospectus.—This is a document issued by public companies inviting the public to subscribe for shares or debentures of the company. At the foot of the prospectus there is generally an application form (see page 476) to be filled up by persons wishing to obtain shares. Every prospectus issued by or on behalf of a company, or in relation to any intended company, must be dated, and such date will, unless the contrary be proved, be taken as the date of publication of the prospectus. A copy of every such prospectus, signed by every person who is named therein as a director or proposed director of the company, or by his agent authorised in writing, must be filed for registration with the registrar of joint stock companies on or before the date of its publication, and no such prospectus must be issued until a copy of it has been so filed for

registration. Every prospectus must state on the face of it that a copy has been filed for registration.

Section 81 of the Companies Consolidation Act, 1908, provides as follows :—

Every prospectus issued by or on behalf of a company, or by or on behalf of any person who is or has been engaged or interested in the formation of the company, must state :—

(1) The contents of the Memorandum, with the names, descriptions, and addresses of the signatories, and the number of shares subscribed for by them respectively ; and the number of founders or management or deferred shares (if any) and the nature and extent of the interest of the holders in the property and profits of the company ; and

(2) the number of shares (if any) fixed by the Articles as the qualification of a director, and any provision in the Articles as to the remuneration of the directors ; and

(3) the names, descriptions, and addresses of the directors or proposed directors ; and

(4) the minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment on each share ; and in the case of a second or subsequent offer of shares, the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount (if any) paid on the shares so allotted ; and

(5) the number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or are proposed or intended to be issued ; and

(6) the names and addresses of the vendors of any property purchased or acquired by the company, or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by the prospectus, or the purchase or acquisition of which has not been completed at the date of issue of the prospectus, and the amount payable in cash, shares, or debentures, to the vendor, and where there is more than one separate vendor, or the company is a sub-purchaser, the amount so payable to each vendor : Provided that where the vendors or any of them are a firm the members of the firm shall not be treated as separate vendors ; and

(7) the amount (if any) paid or payable as purchase money in cash, shares, or debentures, for any such property as aforesaid, specifying the amount (if any) payable for goodwill ; and

(8) the amount (if any) paid within the two preceding years, or payable as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company, or the rate of any such commission : Provided that it shall not be necessary to state the commission payable to sub-underwriters ; and

(9) the amount or estimated amount of preliminary expenses ; and

(10) the amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment ; and

(11) the dates of and parties to every material contract, and a reasonable time and place at which any material contract or a copy thereof may be inspected : Provided that this requirement shall not apply to a contract entered into in the ordinary course of the business carried on or intended to be carried on by the company, or to any contract entered into more than two years before the date of issue of the prospectus ; and

(12) the names and addresses of the auditors (if any) of the company; and

(13) full particulars of the nature and extent of the interest (if any) of every director in the promotion of, or in the property proposed to be acquired by, the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as, a director, or, otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company; and

(14) where the company is a company having shares of more than one class, the right of voting at meetings of the company conferred by the several classes of shares respectively.

Statement in Lieu of Prospectus.—A company which does not issue a prospectus on or with reference to its formation, must not allot any of its shares or debentures unless before the first allotment of either shares or debentures there has been filed with the registrar of companies a "Statement in Lieu of Prospectus" (see page 370), signed by every person who is named therein as a director or proposed director of the company, or by his agent authorised in writing, in the form and containing the particulars set out in the second schedule of the 1908 Act. This does not apply to a *private* company. A company must not previously to the statutory meeting vary the terms of a contract referred to in the prospectus or statement in lieu of prospectus, except subject to the approval of the statutory meeting.

Directors and Restrictions on their Appointment.—The directors of a company are those persons who are elected by the shareholders to conduct and manage its business. Collectively they form the Board of Directors, and their powers are conferred, defined, and regulated by the Memorandum and Articles of Association. By section 72, no person is capable of being appointed a director of a company by the Articles, or named as a director or proposed director of a company in any prospectus issued by or on behalf of the company, or in any statement in lieu of prospectus filed by or on behalf of a company, unless he has previously by himself or by his agent authorised in writing:—

(1) Signed and filed with the registrar of companies a consent in writing to act as such director; and

(2) Either signed the Memorandum for a number of shares not less than his qualification (if any), or signed and filed with the registrar a contract in writing to take from the company and pay for his qualification shares (if any).

On the application for registration of the Memorandum and Articles of a company, the applicant must deliver to the registrar a list of the persons who have consented to be directors of the company. This section does not apply to a *private* company.

THE COMPANIES (CONSOLIDATION) ACT, 1908. (SECTION 82.)

. . . . . COMPANY, LIMITED,

STATEMENT IN LIEU OF PROSPECTUS.

The nominal capital of the company . .	£
Divided into	Shares of £ each. = £ „ „ £ „
Names, descriptions, and addresses of directors or proposed directors.	
Minimum subscription (if any) fixed by the Memorandum or Articles of Association on which the company may proceed to allotment.	
Number and amount of shares and debentures agreed to be issued as fully or partly paid-up otherwise than in cash. The consideration for the intended issue of such shares and debentures.	1. shares of £ fully paid. 2. shares upon which £ per share credited as paid. 3. debenture £ 4. Consideration.
Names and addresses of (*a*) vendors of property purchased or acquired, or proposed to be (*b*) purchased or acquired by the company. Amount (in cash, shares, or debentures) payable to each separate vendor.	
Amount (if any) paid or payable (in cash or shares or debentures) for any such property, specifying amount (if any) paid or payable for goodwill.	Total purchase price . . . £ Cash . . . . £ Shares . . . . £ Debentures . . . £ Goodwill . . . . £
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company, or Rate of the commission	Amount paid. „ payable. Rate per cent.
Estimated amount of preliminary expenses .	£
Amount paid or intended to be paid to any promoter. Consideration for the payment.	Name of promoter. Amount £ Consideration—
Dates of, and parties to, every material contract (other than contracts entered into in the ordinary course of the business intended to be carried on by the company or entered into more than two years before the filing of this statement).	
Time and place at which such contracts or copies thereof may be inspected.	
Names and addresses of the auditors of the company (if any).	
Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.	
Whether the Articles contain any provisions precluding holders of shares or debentures, receiving and inspecting Balance Sheets or reports of the auditors or other reports.	Nature of the provisions.
(Signatures of the persons above-named as directors or proposed directors, or of their agents authorised in writing.)	

(*a*) For definition of vendor, *see* Section 81 2) of the Companies (Consolidation) Act, 1908.

(*b*) *See* Section 81 (3) of the Companies (Consolidation) Act, 1908.

A director must obtain his qualification shares within two months (or such shorter term as the Articles may fix) of his appointment, or vacate the office. The acts of a director or manager are valid, notwithstanding any defect afterwards discovered in his appointment or qualification.

Allotment of Shares and Restrictions on Allotment.—Allotment signifies the distributing of the shares in response to the applications made for them, or in pursuance of contracts agreeing to take them. A Letter of Allotment (see page 477), is sent to each allottee informing him of the numbers of the shares allotted to him. The letter requires a 1d. stamp when the amount is less than £5, while for larger amounts the duty is 6d. An application for shares is an offer to contract, and the posting of the Letter of Allotment is an acceptance of such offer. If no allotment is made a Letter of Regret (see page 479) is forwarded.

By section 85 of the Act:—

(1) No allotment must be made of any share capital offered to the public for subscription, unless the following conditions have been complied with, namely:—

(*a*) The amount (if any) fixed by the Memorandum or Articles and named in the prospectus as the minimum subscription upon which the directors may proceed to allotment; or

(*b*) If no amount is so fixed and named, then the whole amount of the share capital so offered for subscription has been subscribed, and the sum payable on application for the amount so fixed and named, or for the whole amount offered for subscription, has been paid to and received by the company.

(2) The amount so fixed and named and the whole amount aforesaid must be reckoned exclusively of any amount payable otherwise than in cash, and is in the Act referred to as the "minimum subscription."

(3) The amount payable on application on each share must not be less than 5 per cent. of the nominal amount of the share.

(4) If the conditions aforesaid have not been complied with on the expiration of forty days after the first issue of the prospectus, all money received from applicants for shares must be forthwith repaid to them.

(5) Any condition requiring or binding an applicant to waive compliance with any requirement of this section is void.

(6) This section, except subsection 3, does not apply to any allotment of shares subsequent to the first allotment of shares offered to the public for subscription.

(7) In the case of the first allotment of share capital payable in cash of a company which does not issue any invitation to the public

to subscribe for its shares, no allotment must be made unless the minimum subscription (that is to say) :—

(*a*) The amount (if any) fixed by the Memorandum or Articles and named in the statement in lieu of prospectus as the minimum subscription upon which the directors may proceed to allotment ; or

(*b*) If no amount is so fixed and named, then the whole amount of the share capital other than that issued or agreed to be issued as fully or partly paid up otherwise than in cash,

has been subscribed and an amount not less than 5 per cent. of the nominal amount of each share payable in cash has been paid to and received by the company. This subsection does not apply to a *private* company.

Restrictions on Commencement of Business.—By section 87, a company must not commence any business or exercise any borrowing powers unless :—

(*a*) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less in the whole than the minimum subscription ; and

(*b*) Every director of the company has paid to the company on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash ; and

(*c*) There has been filed with the registrar of companies a statutory declaration by the secretary or one of the directors, in the prescribed form, that the aforesaid conditions have been complied with ; and

(*d*) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the registrar of companies a statement in lieu of prospectus.

On the filing of the statutory declaration, and the statement in lieu of prospectus where necessary, the registrar of companies issues a certificate that the Company is entitled to commence business. This section does not apply to a *private* company.

Return as to Allotments.—By section 88, whenever a company limited by shares makes any allotment of its shares, the company must within one month thereafter file with the registrar of companies—

(*a*) A return of the allotments (see page 488), stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share ; and

(*b*) In the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of

the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

Certificates of Shares or Stock.—Every company must, within two months after the allotment of any of its shares, debentures, or debenture stock, and within two months after the registration of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures, or debenture stock otherwise provide. A certificate, under the common seal of the company, specifying any shares or stock held by any member is *primâ facie* evidence of the title of the member to the shares or stock. The certificates are issued in exchange for the allotment letters and the bankers' receipts for money paid on application and allotment.

Nature of Shares and of Money Due on Them.—The shares or other interest of any member in a company are personal estate, transferable in the manner provided by the Articles of the company. Each share in a company having a share capital must be distinguished by its appropriate number. A company cannot purchase its own shares. Any money due from a member to the company in respect of his shares is of the nature of a specialty debt, that is, recoverable any time within twenty years.

Transfer of Shares.—Unless the Articles restrict or forbid it, shares are transferable either by deed or by an instrument in writing signed by the transferor and the transferee, and such transfer must be sent to the company's office for registration. The transferee then has the right to have his name entered on the Register of Members as the holder of the shares. Any transfer of the shares of a deceased member by his personal representative—executor or administrator—or by the trustee in bankruptcy is valid. Companies generally charge a fee of 2s. 6d. for registering transfers. These fees are posted to a separate account under the heading of "**Transfer Fees**," and treated as a profit in the company's annual accounts. When partly paid shares are transferred, the transferor is still liable for the amount due on them within a period of one year from the time at which he ceased to be a member; that is, if the transferee fails to pay the amount.

Unlimited Liability of Directors.—In a limited company the liability of the directors or managers, or of the managing director, may, if so provided by the Memorandum, be unlimited. A limited company, if so authorised by its Articles, may, by special resolution

alter its Memorandum so as to render unlimited the liability of its directors, or managers, or of any managing director. A copy of the resolution must be embodied in or annexed to every copy of the Memorandum issued subsequently.

Office, Seal, and Name of Company.—Every company must have a registered office to which all communications and notices may be addressed. Notice of the situation of the registered office, and of any change therein, must be given to the registrar of companies.

Every company must also possess a common seal, which must be used for the authentication of all important documents.

By section 63 of the Act, every limited company must:—

(*a*) Paint or affix, and keep painted or affixed, its name on the outside of every office or place in which its business is carried on, in a conspicuous position, in letters easily legible;

(*b*) Have its name engraven in legible characters on its seal;

(*c*) Have its name mentioned in legible characters in all notices, advertisements, and other official publications of the company, and in all bills of exchange, promissory notes, indorsements, cheques, and orders for money or goods purporting to be signed by or on behalf of the company, and in all bills of parcels, invoices, receipts, and letters of credit of the company.

Meetings—Annual General Meeting.—A general meeting of every company must be held once at least in every calendar year, and not more than fifteen months after the holding of the last preceding general meeting. If default is made in holding such a meeting, the Court may, on the application of any member, call or direct the calling of a general meeting of the company.

Statutory Meeting and Statutory Report.—By section 65 of the Act, every company limited by shares and registered on or after the 1st day of January, 1901, must, within a period of not less than one month nor more than three months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company which is to be called the Statutory Meeting. The directors must, at least seven days before the day on which the meeting is held, forward a report (in the Act called the Statutory Report) to every member of the company and to every other person entitled under the Act to receive it. The Statutory Report must be certified by not less than two directors of the company, or where there are less than two directors, by the sole director and manager, and must state:—

(*a*) The total number of shares allotted, distinguishing shares allotted as fully or partly paid otherwise than in cash, and state in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;

(*b*) The total amount of cash received by the company in respect of all the shares allotted, distinguishing as aforesaid;

(*c*) An abstract of the receipts of the company on account of its capital, whether from shares or debentures, and of the payments made thereout, up to a date within seven days of the date of the Report, exhibiting under distinctive headings the receipts of the company from shares and debentures and other sources, the payments made thereout, and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company;

(*d*) The names, addresses, and descriptions of the directors, auditors (if any), managers (if any), and secretary of the company; and

(*e*) Particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification.

A copy of the Statutory Report must be filed with the registrar of companies. The provisions as to the forwarding and filing of the Statutory Report do not apply to a *private* company.

Extraordinary General Meeting.—Notwithstanding anything in the Articles of a company, the directors of a company must, on the requisition of the holders of not less than one-tenth of the issued share capital of the company upon which all calls or other sums then due have been paid, forthwith proceed to convene an extraordinary general meeting of the company. If the directors do not within twenty-one days proceed to do this, the requisitionists, or a majority of them in value, may themselves convene the meeting.

Provisions as to Meetings and Votes.—In default of, and subject to, any regulations in the Articles:—

(1) A meeting of a company may be called by seven days' notice in writing, served on every member in the manner in which notices are required to be served by Table A.

(2) Five members may call a meeting.

(3) Any person elected by the members present at a meeting may be chairman thereof.

(4) Every member shall have one vote.

Resolutions.—An **Ordinary Resolution** is one that is decided by a bare majority of the company. An **Extraordinary Resolution** is one that has been passed by a majority of not less than three-fourths of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a general meeting of which notice specifying the intention to propose the resolution as an extraordinary resolution has been duly given. A **Proxy** is a written nomination of a person to vote on behalf of an absent member. A **Special Resolution** is one that has been:—

(*a*) Passed in the manner required for the passing of an extraordinary resolution; and

(*b*) Confirmed by a majority of such members entitled to vote as are present in person or by proxy (where proxies are allowed) at a subsequent general meeting, of which notice has been duly given, and held after an interval of not less than fourteen days, nor more than one month, from the date of the first meeting.

A declaration of the chairman that the resolution is carried is, unless a poll is demanded, conclusive evidence of the fact. A poll may be demanded by three to five persons (according to the Articles). In computing the majority on the poll, reference must be had to the number of votes to which each member is entitled by the Articles.

Registration of Resolutions.—A copy of every special and extraordinary resolution must within fifteen days of the confirmation of the special resolution, or from the passing of the extraordinary resolution, as the case may be, be printed and forwarded to the registrar of companies to record the same. Where Articles have been registered, a copy of every special resolution for the time being in force must be embodied in or annexed to every copy of the Articles issued after the confirmation of the resolution. Where Articles have not been registered, a copy of every special resolution must be forwarded in print to any member at his request, on payment of a fee not exceeding 1s.

Different Amounts Payable on Shares.—A company, if so authorised by its Articles, may:—

(1) Make arrangements on the issue of shares for a difference between the shareholders in the amounts and times of payment of calls on their shares;

(2) Accept from any member who assents thereto the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up;

(3) Pay dividend in proportion to the amount paid up on each share where a larger amount is paid up on some shares than on others.

Alteration of Share Capital.—A company limited by shares, if so authorised by its Articles, may alter the conditions of its Memorandum, that is to say, it may:—

(*a*) Increase its share capital by the issue of new shares of such amount as it thinks expedient;

(*b*) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;

(*c*) Convert all or any of its paid-up shares into stock, and re-convert that stock into paid-up shares of any denomination;

(*d*) By special resolution, subdivide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum, so, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived;

(*e*) Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Every copy of the Memorandum issued subsequently must be in accordance with the alteration. Notice of any such increase, consolidation, division, conversion, or re-conversion must be given to the registrar of companies.

Reorganisation of Share Capital.—A company limited by shares may, by special resolution confirmed by an order of the Court, modify the conditions contained in its Memorandum so as to re-organise its share capital, whether by the consolidation of shares of different classes or by the division of its shares into shares of different classes. An office copy of any such order must be filed with the registrar of companies before the resolution can take effect.

Reserve Liability of Limited Company.—A limited company may by special resolution determine that any portion of its share capital which has not been already called up shall not be capable of being called up, except in the event and for the purposes of the company being wound up. The object of this is to increase the financial stability of the company by having large capital reserves.

Mortgages, Charges, etc.—By section 93 of the Act, every mortgage or charge created after the first day of July, 1908,[1] by a company registered in England or Ireland and being either:—

(*a*) A mortgage or charge for the purpose of securing any issue of debentures; or

(*b*) A mortgage or charge on uncalled share capital of the company; or

(*c*) A mortgage or charge created or evidenced by an instrument which, if executed by an individual, would require registration as a bill of sale; or

(*d*) A mortgage or charge on any land, wherever situate, or any interest therein; or

(*e*) A mortgage or charge on any book debts of the company; or

(*f*) A floating charge on the undertaking or property of the company,

shall, so far as any security on the company's property is thereby conferred, be void against the liquidator and any creditor of the company, unless the prescribed particulars of the mortgage or charge, together with the instrument (if any) by which the mortgage or charge is created or evidenced, are delivered to or received by the registrar of companies for registration in the manner required by the Act within twenty-one days after the date of its creation.

[1] Mortgages prior to that date would already be registered under the Act of 1907.

The registrar shall keep, with respect to each company, a register in the prescribed form of all the mortgages and charges created by the company after the first day of July, 1908, and requiring registration under this section, and shall, on payment of the prescribed fee, enter in the register with respect to every such mortgage or charge, the date of creation, the amount secured by it, short particulars of the property mortgaged or charged, and the names of the mortgagees or persons entitled to the charge. The register shall be open to inspection by any person on payment of a fee not exceeding 1s. for each inspection.

The registrar shall give a certificate under his hand of the registration of any mortgage or charge registered in pursuance of this section stating the amount thereby secured. The company shall cause a copy of every certificate of registration to be indorsed on every debenture or certificate of debenture stock which is issued by the company, and the payment of which is secured by the mortgage or charge so registered.

It shall be the duty of the company to send to the registrar for registration the particulars of every mortgage or charge created by the company, and of the issues of debentures of a series, requiring registration under this section. Every company must keep a copy of every such instrument, and a copy of one such debenture, at its registered office

Perpetual Debentures.—A condition contained in any debentures or in any deed for securing any debentures, is not invalid by reason only that thereby the debentures are made irredeemable or redeemable only on the happening of a contingency, however remote, or on the expiration of a period, however long.

Power to Re-issue Redeemed Debentures.—Where a company has redeemed any debentures previously issued, the company, unless the Articles or conditions of issue expressly otherwise forbid, has power to keep the debentures alive for the purposes of re-issue, and may either re-issue the same debentures or issue others in their place. Where a company has deposited any of its debentures to secure advances from time to time on current account or otherwise, the debentures are not deemed to have been redeemed by reason only of the account of the company having ceased to be in debit whilst the debentures remained so deposited.

Trust Deed.—The property of the company comprised in the charge is frequently conveyed by way of mortgage to a trustee or trustees for the debenture holders. Such an instrument is called a "trust deed," and reference to such trust deed and conditions is made on every debenture covered by it.

Floating Charge.—If the property mortgaged consists of assets other than freeholds and leaseholds, such as stock, book debts, etc., the charge is called a "floating charge," and the company is able

to deal with its movable property in the ordinary course of business. A floating charge attaches to the assets in the varying condition they may happen to be from time to time, and remains dormant all the while the company is a going concern, or until after default in payment of interest.

Rights of a Debenture Holder.—A debenture holder who has a charge upon the company's property may:—

(1) Sue for repayment of the principal and any interest which is owing;

(2) Present a winding-up petition against the company;

(3) Prove for the debt in the winding up;

(4) Appoint a receiver.

The last right is the one most frequently exercised; for a company may be only temporarily embarrassed, and a little careful management may lift it out of its difficulties.

Underwriting Commissions, and Discounts.—Underwriting is a kind of insurance against the risk that shares or debentures offered to the public for subscription may not be taken up, the underwriters guaranteeing to take up those shares or debentures for which the public fail to subscribe. In return for this they are paid a commission either in cash or in fully-paid shares. An agreement to *place* shares, however, is not an underwriting agreement. By section 89 of the Act, it is lawful for a company to pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in the company, or procuring or agreeing to procure subscriptions, whether absolutely or conditionally, for any shares in the company, if the payment of the commission is authorised by the Articles, and the commission paid or agreed to be paid does not exceed the amount or rate so authorised, and if the amount or rate per cent. of the commission paid or agreed to be paid is:—

(*a*) In the case of shares offered to the public for subscription, disclosed in the prospectus; or

(*b*) In the case of shares not offered to the public for subscription disclosed in the statement in lieu of prospectus, or in a statement in the prescribed form signed in like manner as a statement in lieu of prospectus and filed with the registrar of companies, and, where a circular or notice, not being a prospectus, inviting subscription for the shares is issued, also disclosed in that circular or notice.

Where a company has paid any sums by way of commission in respect of any shares or debentures, or allowed any sums by way of discount in respect of any debentures, the total amount so paid or allowed, or so much thereof as has not been written off, must be stated in every Balance Sheet of the company until the whole amount has been written off.

Audit and Auditors' Report.—Every company must have an

annual audit, and the auditors must make a report to the shareholders on the accounts and on the Balance Sheet, and the report and Balance Sheet must be laid before the company in general meeting. Any shareholder is entitled to be furnished with a copy of the Balance Sheet and auditors' report at a charge not exceeding 6d. for every hundred words. Section 112 of the Companies (Consolidation) Act, 1908, enacts :—

(1) Every company shall at each annual general meeting appoint an auditor or auditors to hold office until the next annual general meeting.

(2) If any appointment of auditors is not made at an annual general meeting, the Board of Trade may, on the application of any member of the company, appoint an auditor of the company for the current year, and fix the remuneration to be paid to him by the company for his services.

(3) A director or officer of the company shall not be capable of being appointed auditor of the company.

A person other than a retiring auditor cannot be appointed auditor at an annual general meeting, unless the shareholder who proposes to nominate him has given notice of such intention to the company fourteen days before the meeting. The first auditors of the company may be appointed by the directors, who may also fill any casual vacancy.

Section 113 of the same Act says :—

(1) Every auditor of a company shall have a right of access at all times to the books and accounts and vouchers of the company, and shall be entitled to require from the directors and officers of the company such information and explanation as may be necessary for the performance of the duties of the auditors.

(2) The auditors shall make a report to the shareholders on the accounts examined by them, and on every balance sheet laid before the company in general meeting during their tenure of office, and the report shall state :—

(*a*) whether or not they have obtained all the information and explanations they have required ; and

(*b*) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

The balance sheet must be signed by two directors and the auditor's report attached to it, or else reference must be made at the foot of the balance sheet to the auditor's report, which must be read before the company in general meeting.

By section 114 of the Act, holders of preference shares and debentures of a company have the same right to receive and inspect the balance sheets of the company and the reports of the auditors and other reports as is possessed by the holders of ordinary shares in the company. This section does not apply to a *private* company, nor to a company registered before the 1st day of July, 1908.

Companies Established Outside the United Kingdom.—Every company incorporated outside the United Kingdom which establishes

a place of business within the United Kingdom must within one month from the establishment of the place of business file with the registrar of companies :—

(*a*) A certified copy of the charter, statutes, or Memorandum and Articles of the company, or other instrument constituting or defining the constitution of the company, and, if the instrument is not written in the English language, a certified translation thereof ;

(*b*) Particulars of the directors of the company ;

(*c*) The names and addresses of some one or more persons resident in the United Kingdom authorised to accept on behalf of the company service of process and any notices required to be served on the company ;

and in the event of any alteration being made in any such instrument or in the directors or in the names or addresses of any such persons as authorised, the company must within the prescribed time file with the registrar a notice of the alteration. Every such company must file with the registrar each year the prescribed Statement in the form of a Balance Sheet.

CAPITAL

Share Capital.—Capital is the money subscribed by the shareholders for the purposes of the company.

Nominal Capital is the amount stated in the Memorandum of Association. The capital possessed by a company may be only a portion of its capital, not necessarily the whole of it. The full amount of the company's capital exists very often only *in name*, hence the use of the term to indicate such capital.

Authorised Capital is the amount stated in the Memorandum of Association. The Memorandum is looked upon as the charter which *authorises* the existence and acts of the company, hence the application of the word to its capital.

Registered Capital is the amount stated in the Memorandum of Association. The Memorandum has to be *registered* by the registrar of joint stock companies, and this fact accounts for the use of the term with reference to the company's capital.

Thus, Nominal, Authorised, and Registered Capital are the same.

Issued and Subscribed Capital.—This is the capital represented by the number of shares that have been issued to the public for cash, and to the vendors as fully or partly paid. A company frequently *issues* only a part of its shares, hence the use of the term Issued Capital to denote the part so issued.

Called-up Capital is the amount of money called up on the shares actually subscribed. A company does not necessarily require the full amount at once on the shares it has issued, and, therefore, *calls up* only such as it needs, hence the use of the term.

Paid-up Capital is the amount of the called-up capital that has actually been *paid up* by the shareholders, some of whom sometimes fail to pay the sums due from them when a call is made, the amounts thus owing being known as Calls in Arrear or Calls Unpaid. It also includes the amount of the shares issued as fully or partly paid to the vendor and others.

Uncalled Capital is the amount of the capital remaining *uncalled* on the shares actually issued to the public and to the vendors and others.

Reserve Capital is the amount of the authorised capital which has not been called up and which the company by special resolution has determined shall not be capable of being called up, except in the event, and for the purpose, of winding up.

Example.—A company was formed with a capital of £100,000 in shares of £1 each, and duly incorporated. It issued to the vendors 30,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 50,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 200 shares.

In this case the capital would be termed as under :—

	£
Nominal Capital Authorised Capital Registered Capital	100,000
Issued Capital	80,000
Called-up Capital	55,000
Paid-up Capital	54,950
Uncalled Capital	25,000

SHARES

Classes of Shares.—A share is the individual portion of the joint stock company's capital owned by a shareholder. Shares are divided into different classes according to their respective rights.

Ordinary Shares are those which have no special or particular rights, but merely the ordinary right of every shareholder, as such, to participate in the profits.

Preferred Ordinary Shares are those which have a right to a fixed dividend after the payment of dividend to the preference shareholders.

Deferred Ordinary Shares are those which rank for dividend after the preferred ordinary shares, and which are usually entitled to the profits then remaining.

Preference Shares are those which have a prior claim on any profits available for dividend. They *may* also have a prior claim to repayment of capital in the event of a winding up. If the shares are not Cumulative Preference Shares, the preference dividend is

payable only *out of the profits of each year*; and if not paid then, the Preference shareholder cannot claim to receive it out of profits in subsequent years.

Cumulative Preference Shares are those on which the fixed dividend accumulates until it is all paid, the arrears of any one year being carried forward as a charge upon the subsequent year's profits. There is, however, no obligation to pay until a resolution has been passed declaring a dividend. The arrears are, therefore, shown on the Balance Sheet as a *contingent* liability only. Unless the Articles expressly or impliedly provide otherwise, Preference Shares are always cumulative as to dividend, but not preferential as to capital.

Deferred, Founders; or Management Shares.—These are shares which have to wait for their dividend until all other classes of shares have participated in the profits. They are often taken by the founders or promoters of the company, and sometimes by the vendors. They are generally entitled to the whole or a very large portion of the surplus profits after payment of all prior claims.

Difference between Shares and Stock.—Shares are transferable only in their entirety. In order to make them transferable in smaller amounts, they are frequently converted into stock. Stock may be transferable in fractional parts of a pound. Shares may be only partly paid, but stock must always be fully paid. Shares are numbered while stock is not identified in this way.

DEBENTURES

Debentures are loans to limited companies bearing a fixed rate of interest, the principal being either repayable after a certain number of years, or irredeemable during the existence of the company. Irredeemable debentures are mostly issued in the case of railway and other large companies.

Simple or Naked Debentures are those where no security is given for payment of interest or repayment of principal.

Mortgage Debentures are those which are secured on the company's property, giving a charge upon either the whole or a portion of the assets.

Floating Debentures are those which are secured by a floating charge on the company's property.

Debentures are also classified as :—

(1) **Debentures to Bearer,** that is, debentures payable to bearer, with or without power for the bearer to have them placed on a register or to have them at any time withdrawn from it. These are transferable by simple delivery.

(2) **Registered Debentures,** that is, debentures payable to a registered holder, with or without interest coupons payable to bearer. Any transfer of these must be registered with the company.

Difference between Debentures and Debenture Stock.—Debenture

Stock is borrowed money consolidated into one sum for the sake of convenience. Debentures need not be fully paid; debenture stock must always be fully paid. Debenture bonds are transferable only in their entirety; debenture stock may be transferable in multiples of a pound or fractions of a pound.

Debenture Interest is the interest payable yearly or half-yearly on the money borrowed.

Difference between a Shareholder and a Debenture Holder.—A shareholder is an *inside* person, a partner in the company; a debenture holder is an *outside* person, merely a loan creditor. A shareholder shares in the profits, getting a *dividend* on the money he has invested; a debenture holder receives *interest* on the money he has lent, charged as a working expense, even if there is not any profit.

ISSUE OF SHARES AND DEBENTURES

How Shares and Debentures may be Issued.—Shares and Debentures may be issued in different ways both as regards terms of payment and also as regards price.

(1) **As regards Price.**—Shares and Debentures may be issued *at par*, that is, at a price *equal* to their nominal value, as, for instance, a £1 share for £1, or a £50 debenture bond for £50. Shares and Debentures may likewise be issued **at a premium**, that is, at a price *above* their nominal or face value, as, for instance, a £1 share for £1 2s. 6d., or a £100 debenture bond for £105. Debentures, however, may also be issued **at a discount**, that is, at a price *below* their nominal value. Shares can never be issued at a discount, as this is illegal.

(2) **As regards Terms of Payment.**—Shares and Debentures may be issued payable in full on application. They may also be issued payable by instalments as and when the money is required by the company.

I. SHARES AND DEBENTURES PAYABLE IN FULL

(*a*) Shares and Debentures at par

When shares and debentures are issued payable in full on application, a separate account must be opened for each class of shareholders or debenture holders, and also for each kind of share capital or debentures. The people who take the ordinary shares will be called Ordinary Shareholders, and the money they pay for these shares will be called Ordinary Share Capital, and so with other kinds of shares.

Example.—A limited company issued at par 30,000 Ordinary Shares of £1 each, and £10,000 4½% Debentures in bonds of £50 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, extract Trial Balance, and draw up the company's Balance Sheet.

JOURNAL.

		Dr.			Cr.		
	Ordinary Shareholders . .	30,000	–	–			
	To Ordinary Share Capital				30,000	–	–
	30,000 Shares of £1 each.						
	Debenture Holders . .	10,000	–	–			
	To Debentures . .				10,000	–	–
	200 bonds of £50 each.						

Dr. CASH BOOK.

Receipts.	Bank.		
To Ordinary Shareholders	30,000	–	–
„ Debenture Holders	10,000	–	–

LEDGER

Dr. ORDINARY SHAREHOLDERS. *Cr.*

To Ord. Share Capital . .	30,000	–	–		By Cash . .	30,000	–	–

Dr. ORDINARY SHARE CAPITAL. *Cr.*

					By Ord. Shareholders	30,000	–	–

Dr. DEBENTURE HOLDERS. *Cr.*

To Debentures .	10,000	–	–		By Cash . .	10,000	–	–

Dr. DEBENTURES. *Cr.*

					By Debenture Holders . .	10,000	–	–

TRIAL BALANCE.

	Dr.			Cr.		
Ordinary Share Capital . . .				30,000	–	–
Debentures				10,000	–	–
Cash at Bank	40,000	–	–			
	40,000	–	–	40,000	–	–

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
Ordinary Share Capital—				Cash at Bank . . .	40,000	–	–
30,000 Shares of £1 each .	30,000	–	–				
Debentures—							
200 Bonds of £50 each .	10,000	–	–				
	40,000	–	–		40,000	–	–

Narration.—At the foot of each Journal entry the student will notice an explanatory remark; this is called a **narration.** Narrations should always be added in Journal entries. Not only do they assist the student to arrive at the correct figures to extend into the money columns, but they greatly facilitate the subsequent checking or auditing of the work.

Treatment of Details.—The details as to the individual shareholders, the particular shares held, and the respective amounts paid on them, are omitted in the Journal, Cash Book, and General Ledger; they are not, however, ignored altogether, but are entered into various statistical books, as will be explained in a subsequent chapter.

Journal Entries sometimes Dispensed with.—Journal entries are sometimes omitted altogether, and only Cash Book entries made for the money actually received. For instance, the Cash Book in the foregoing example would, if worked by this method, appear as follows :—

Dr. CASH BOOK.

Receipts.	Bank.		
To Ordinary Share Capital	30,000	–	–
„ Debentures	10,000	–	–

This, however, is merely a short cut at the expense of clearness, and although theoretically correct, it cannot be recommended to the student.

(*b*) Shares and Debentures at a premium

A separate account must be opened in the Ledger for the Premium, which forms no part of the capital, but is merely a gain to the Company.

Example.—A Limited Company issued 20,000 Preference Shares of £1 each at 22s. 6d. per share, and £10,000 4½% Debentures, in bonds of £50 each, at a premium of 5 per cent.; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL.	Dr.			Cr.		
Preference Shareholders .	22,500	–	–			
To Preference Share Capital 20,000 Shares of £1 each.				20,000	–	–
To Share Premium A/c . 2s. 6d. per share on 20,000 shares.				2,500	–	–
Debenture Holders . .	10,500	–	–			
To Debentures . . 200 bonds of £50 each .				10,000	–	–
To Debenture Premium . 5 % on £10,000.				500	–	–

Dr. CASH BOOK.

Receipts.	Bank.		
To Preference Shareholders	22,500	–	–
„ Debenture Holders	10,500	–	–

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
Preference Share Capital—				Cash at Bank . .	33,000	–	–
20,000 Shares of £1 each .	20,000	–	–				
4½% Debentures—							
200 Bonds of £50 each .	10,000	–	–				
Share Premium A/c .	2,500	–	–				
Debenture Premium A/c	500	–	–				
	33,000	–	–		33,000	–	–

(*c*) Debentures at a discount

The discount must be separated from the amount payable on the debentures; it must be posted to a separate account in the Ledger, as it forms no part of the debentures, but is merely a loss sustained by the Company in issuing the debentures.

Example.—A Limited Company issued £10,000 4½% Debentures, in bonds of £50 each, at £45 per bond; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show also the Company's Balance Sheet.

JOURNAL.	Dr.			Cr.		
Debenture Holders . . (£45 per bond on 200 bonds)	9,000	–	–			
Debenture Discount . . (£5 per bond on 200 bonds)	1,000	–	–			
To Debentures . .				10,000	–	–

Dr. CASH BOOK.

Receipts.	Bank.		
To Debenture Holders	9,000	–	–

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
4½% Debentures—				Cash at Bank . .	9,000	–	–
200 Bonds of £50 each .	10,000	–	–	Debenture Discount .	1,000	–	–
	10,000	–	–		10,000	–	–

II. SHARES AND DEBENTURES PAYABLE BY INSTALMENTS

Shares and debentures are most frequently issued payable by instalments at certain intervals. In such cases separate accounts are opened for each instalment, *e.g.*, Application Account, Allotment Account, Call Account, for both shares and debentures.

(*a*) Shares at par

Example.—A Limited Company issued 50,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. on allotment, and 5s. on each of two subsequent calls; which were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and draw up Trial Balance and Balance Sheet.

JOURNAL.	*Dr.*			*Cr.*		
Application A/c (Ord. Shares)	6,250	–	–			
To Ordinary Share Capital				6,250	–	–
2s. 6d. per share on 50,000 shares.						
Allotment A/c (Ord. Shares)	18,750	–	–			
To Ordinary Share Capital				18,750	–	–
7s. 6d. per share on 50,000 shares.						
First Call A/c (Ord. Shares)	12,500	–	–			
To Ordinary Share Capital				12,500	–	–
5s. per share on 50,000 shares.						
Second Call A/c (Ord. Shares)	12,500	–	–			
To Ordinary Share Capital				12,500	–	–
5s. per share on 50,000 shares.						

Dr. CASH BOOK. *Cr.*

Receipts.	Bank.
To Application A/c (Ordinary Shares)	6,250 – –
„ Allotment A/c „ „	18,750 – –
„ First Call A/c „ „	12,500 – –
„ Second Call A/c „ „	12,500 – –

LEDGER

Dr. APPLICATION ACCOUNT (ORDINARY SHARES). *Cr.*

To Ord. Share Capital	6,250	–	–	By Cash	6,250	–	–

Dr. ALLOTMENT ACCOUNT (ORDINARY SHARES). *Cr.*

To Ord. Share Capital	18,750	–	–	By Cash	18,750	–	–

Dr. FIRST CALL ACCOUNT (ORDINARY SHARES). *Cr.*

To Ord. Share Capital	12,500	–	–	By Cash	12,500	–	–

Dr. SECOND CALL ACCOUNT (ORDINARY SHARES). *Cr.*

To Ord. Share Capital	12,500	–	–	By Cash	12,500	–	–

Dr. ORDINARY SHARE CAPITAL. *Cr.*

				By Application A/c	6,250	–	–
				„ Allotment A/c	18,750	–	–
				„ First Call A/c	12,500	–	–
				„ Second Call A/c	12,500	–	–

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
Ordinary Share Capital—							
50,000 Shares of £1 each	50,000	–	–	Cash at Bank	50,000	–	–
	50,000	–	–		50,000	–	–

Amalgamation of Application and Allotment Account.—The amounts due on application and allotment are often amalgamated when journalising, and the present editor considers this to be the best method. The first two Journal entries of the foregoing example would, under this method, appear as follows :—

JOURNAL.		Dr.				Cr.		
	Application and Allotment A/c (Ord. Shares) . .	25,000	–	–				
	To Ordinary Share Capital 2s. 6d. on application and 7s. 6d. on allotment of 50,000 shares.				25,000	–	–	

Sundry Shareholders Method for Shares Payable by Instalments.—The Sundry Shareholders Method, which is most suitable for shares payable in full on application, is sometimes used for shares payable by instalments. For instance, the Journal entries of the foregoing example would be similar to the following :—

JOURNAL.		Dr.				Cr.		
	Sundry Shareholders . .	6,250	–	–				
	To Share Capital . . 2s. 6d. per share on 50,000 shares, payable on application.				6,250	–	–	

The Application, Allotment, and Call Account method, however, is so very much clearer, when the amounts are payable by instalments, that it is almost generally adopted.

(*b*) Shares at a premium

Example.—A Limited Company issued 50,000 Preference Shares of £1 each at a premium of 2s. 6d. per share, payable 5s. per share on application, 7s. 6d. on allotment (including the premium), and 5s. per share on each of two later calls. The shares were all subscribed and the money duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.	Dr.			Cr.		
Application A/c (Pref. Shares)	12,500	–	–			
To Preference Share Capital 5s. per share on 50,000 shares.				12,500	–	–
Allotment A/c (Pref. Shares)	18,750	–	–			
To Preference Share Capital 5s. per share on 50,000 shares.				12,500	–	–
To Share Premium A/c 2s. 6d. per share on 50,000 shares.				6,250	–	–
First Call A/c (Pref. Shares)	12,500	–	–			
To Preference Share Capital 5s. per share on 50,000 shares.				12,500	–	–
Second Call A/c (Pref. Shares)	12,500	–	–			
To Preference Share Capital 5s. per share on 50,000 shares.				12,500	–	–

Dr. CASH BOOK.

Receipts.	Bank.		
To Application A/c (Preference Shares)	12,500	–	–
„ Allotment A/c „ „	18,750	–	–
„ First Call A/c „ „	12,500	–	–
„ Second Call A/c „ „	12,500	–	–

(*c*) Debentures at par

Example.—A Limited Company issued £100,000 4½% Mortgage Debentures at par, payable 25% on application, 25% on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.	Dr.			Cr.		
Application A/c (Debentures)	25,000	–	–			
To 4½ % Debentures 25 % of £100,000.				25,000	–	–
Allotment A/c (Debentures)	25,000	–	–			
To 4½ % Debentures 25 % of £100,000.				25,000	–	–
Call A/c (Debentures)	50,000	–	–			
To 4½ % Debentures 50 % of £100,000.				50,000	–	–

Dr. CASH BOOK.

Receipts.	Bank.		
To Application A/c (Debentures)	25,000	–	–
„ Allotment A/c „	25,000	–	–
„ Call A/c „	50,000	–	–

(*d*) Debentures at a premium

Example.—A Limited Company issued £100,000 Debentures in bonds of £100 each at a premium of £5 per bond, payable £30 per bond on application (including the premium), and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.	*Dr.*			*Cr.*		
Application A/c (Debentures)	30,000	–	–			
To Debentures . . .				25,000	–	–
£25 per bond on 1,000 bonds.						
To Debenture Premium .				5,000	–	–
£5 per bond on 1,000 bonds.						
Allotment A/c (Debentures) .	75,000	–	–			
To Debentures . . .				75,000	–	–
£75 per bond on 1,000 bonds.						

Dr. CASH BOOK.

Receipts.	Bank.		
To Application A/c (Debentures)	30,000	–	–
„ Allotment A/c „	75,000	–	–

(*e*) Debentures at a discount

Example.—A Limited Company issued 1,000 4½% Debenture Bonds of £100 each at a discount of 5%, payable 25% on application, and the balance on allotment. The money was duly received. Make the necessary Journal and Cash Book entries.

JOURNAL.	Dr.			Cr.		
Debenture Discount . .	5,000	–	–			
To Debentures . .				5,000		–
5 % of £100,000.						
Application A/c (Debentures)	25,000	–	–			
To Debentures . . .				25,000	–	–
25 % of £100,000.						
Allotment A/c (Debentures)	70,000	–	–			
To Debentures . .				70,000	–	–
70 % of £100,000.						

Dr. CASH BOOK.

Receipts.	Bank.		
To Application A/c (Debentures)	25,000	–	–
„ Allotment A/c „	70,000	–	–

Note re Premiums and Discounts.—The premiums and discounts are shown only in the Journal, and are never mentioned in the Cash Book. As far as the Cash Book is concerned, the receipts in the case of a premium will be *more*, and in the case of a discount *less*, than the nominal value of the shares or debentures. If the premium were shown separately in both the Cash Book and the Journal, we should have the Premium Account credited from the Journal and credited again from the Cash Book, and the result would be to double the premium.

SHARES OVER-SUBSCRIBED

Method of Procedure.—It frequently happens that more shares are applied for than there are shares to allot, and in such cases the shares are said to be "*over-subscribed.*" Those applicants to whom no allotment is made, have their money refunded in full. But those subscribers who are allotted a smaller number of shares than they have applied for, do not have all the money returned to them; the amount they have over-paid on application is carried forward to the credit of the amount due from them on allotment.

Example.—A Limited Company offered for subscription 50,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 60,000 shares. The deposits on 5,000 shares were returned to those applicants to whom no shares were allotted. The deposits on the other 5,000 shares were carried forward to the Allotment Account, these subscribers having paid for more shares than were allotted to them.

The moneys payable on allotment were duly received. Make the necessary entries on the Company's books to record the above transactions.

JOURNAL.	Dr.			Cr.		
Application A/c . . . To Share Capital A/c . 2s. 6d. per share on 50,000 shares.	6,250	–	–	6,250	–	–
Application A/c . . . To Allotment A/c . . Transfer of 2s. 6d. per share on 5,000 shares overpaid on application.	625	–	–	625	–	–
Allotment A/c . . . To Share Capital A/c. . 5s. per share on 50,000 shares.	12,500	–	–	12,500	–	–

Dr. CASH BOOK. *Cr.*

Receipts.	Bank.			Payments.	Bank.		
To Application A/c . . „ Allotment A/c . .	7,500 11,875	– –	– –	By Application A/c (deposits returned to non-allottees, 2s. 6d. per share on 5,000 shares) „ Balance c/d . .	625 18,750	– –	– –
	19,375	–	–		19,375	–	–
To Balance b/d . .	18,750	–	–				

LEDGER

Dr. APPLICATION ACCOUNT. *Cr.*

To Share Capital . „ Allotment A/c . „ Cash (returned) .	6,250 625 625	– – –	– – –	By Cash . .	7,500	–	–
	7,500	–	–		7,500	–	–

Dr. ALLOTMENT ACCOUNT. *Cr.*

To Share Capital .	12,500	–	–	By Application A/c „ Cash . .	625 11,875	– –	– –
	12,500	–	–		12,500	–	–

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

				By Application A/c „ Allotment A/c .	6,250 12,500	– –	– –

Note.—The foregoing Journal entry is made, it should be noted, for the number of shares actually *allotted*, and not for the number of shares applied for. In the Cash Book, however, the exact amount of money received on application must, of course, be recorded. And when the Cash is posted to the Ledger the Application Account gets over-credited. But the Journal entry transferring to the Allotment Account the amount overpaid on application, together with the Cash Book entry debiting the Application Account with the money returned to non-allottees, completely adjusts the Application Account and closes it.

Alternative Method of Dealing with Shares Over-subscribed.—If it is desired to journalise the whole of the applications received—and this is sometimes the case, though it can scarcely be technically correct—the entry would be as follows :—

JOURNAL.	*Dr.*			*Cr.*		
Application A/c . . .	7,500	–	–			
To Share Capital A/c (allottees) . . . 2s. 6d. per share on 50,000 shares.				6,250	–	
To Sundry Subscribers (non-allottees) . . . 2s. 6d. per share on 5,000 shares.				625	–	
To Allotment A/c . . . Transfer of amount overpaid on application, viz., 2s. 6d. per share on 5,000 shares.				625	–	–

The Cash Book entry for the return of the deposits would be :—

CASH BOOK. *Cr.*

Payments.	Bank.		
By Sundry Subscribers (return of deposits to non-allottees)	625	–	–

And the Ledger accounts would appear thus :—

Dr. APPLICATION ACCOUNT. *Cr.*

To Sundries . .	7,500	–	–	By Cash . .	7,500	–	–

Dr. ALLOTMENT ACCOUNT. *Cr.*

To Share Capital .	12,500	–	–	By Application A/c	625	–	–
				„ Cash . .	11,875	–	–
	12,500	–	–		12,500	–	–

Dr.	SUNDRY SUBSCRIBERS (NON-ALLOTTEES).							Cr.
To Cash (returned) .	625	–	–	By Application A/c	625	–	–

Note.—One advantage of amalgamating the Application and Allotment instalments is that it simplifies the adjustment of accounts when shares are over-subscribed. No transfer is required from Application Account to Allotment Account, and only a Cash Book entry becomes necessary for money which is returned to non-allottees. The Journal and Cash Book entries would be as follows :—

JOURNAL.	Dr.			Cr.		
Application and Allotment Account . . . . To Share Capital A/c . . 7s. 6d. per share on 50,000 shares.	18,750	–	–	18,750	–	–

Dr.	CASH BOOK.						Cr.
Receipts.	Bank.			Payments.	Bank.		
To Application and Allotment A/c . .	19,375	–	–	By Application and Allotment A/c . . (Return of deposits to non-allottees).	625	–	–

CALLS IN ADVANCE AND IN ARREAR.

Calls in Arrear.—Shareholders sometimes fail to pay the sums due from them on the shares they hold. In such cases the Allotment and Call Accounts (or Sundry Shareholders' Account if this method of entry has been adopted) will show as debit balances the amounts owing. The total of these amounts will constitute the Calls in Arrear. There may, however, be a separate Calls in Arrear Account in the Ledger, as the various sums due by defaulting shareholders may have been transferred to one special account; but this procedure is not usual. The Articles of Association generally give the directors power to charge interest on calls in arrear.

Calls in Advance.—Some shareholders, who do not wish to be troubled by repeated calls, pay their shares up in full before the proper time. In such cases the money received by the Company in excess of what has been called up must be put to a separate "Calls in Advance" account. No dividend will be payable on this money, for it does not as yet form part of the Company's capital. Most articles of association, however, give the directors power to pay interest on such Calls received in advance. When the company does call up such money, a transfer must be made debiting the Calls in Advance Account and crediting Share Capital Account.

How Calls are Shown on the Balance Sheet.—Although the Calls in Arrear and Calls in Advance are separate accounts in the Ledger, yet the Calls in Arrear are not shown as a separate item on the assets side of the Balance Sheet, nor the Calls in Advance as a separate item on the liabilities side. Both are merged with the Capital, the Calls in Advance being added, and the Calls in Arrear deducted. Some accountants, however, show the Calls in Advance separately.

Nominal Capital Shown on Balance Sheet.—When a Limited Company's shares are payable by instalments, the books at any date will record only such part of the Capital as has been actually called up at this date. On the Balance Sheet, however, it is usual to show both the Nominal and the Issued capital, together with the amount called up on the shares so issued.

Example.—A Limited Company with an authorised Capital of £100,000, in shares of £1 each, issued 50,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. on allotment, 5s. three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 100 shares; and another shareholder, who held 75 shares, paid them right up in full. Make the necessary entries in the Company's books to record the above transactions, and show the Capital on the Company's Balance Sheet.

JOURNAL.

		Dr.			*Cr.*		
	Application A/c . . .	6,250	–	–			
	To Share Capital A/c . .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	Allotment A/c . . .	6,250	–	–			
	To Share Capital A/c . .				6,250	–	–
	2s. 6d. per share on 50,000 shares.						
	First Call A/c . . .	12,500	–	–			
	To Share Capital A/c . .				12,500	–	–
	5s. per share on 50,000 shares.						

Dr. CASH BOOK.

Receipts.	Bank.		
To Application A/c	6,250	–	–
,, Allotment A/c	6,250	–	–
,, First Call A/c (£12,500–£25)	12,475	–	–
,, Calls in Advance A/c (10s. per share on 75 shares) .	37	10	–

BALANCE SHEET.

Capital and Liabilities.						
Nominal Capital :—						
100,000 Shares of £1 each . .	100,000	–	–			
Issued Capital :—						
50,000 Shares of £1 each, 10s. per share called up	25,000	–	–			
Add Calls Paid in Advance .	37	10	–			
	25,037	10	–			
Less Calls in Arrear . . .	25	–	–			
				25,012	10	–

ACCOUNTS AND BALANCE SHEET

Provisions of Table A.—Table A of the Companies (Consolidation) Act, 1908, enacts as follows :—

ACCOUNTS.

103. The directors shall cause true accounts to be kept :—

Of the sums of money received and expended by the Company and the matter in respect of which such receipt and expenditure takes place, and

Of the assets and liabilities of the Company.

104. The books of account shall be kept at the registered office of the Company, or at such other place or places as the directors think fit, and shall always be open to the inspection of the directors.

105. The directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any account or book or document of the Company except as conferred by statute or authorised by the directors or by the Company in general meeting.

106. Once at least in every year the directors shall lay before the Company in general meeting a Profit and Loss Account for the period since the preceding account, or (in the case of the first account) since the incorporation of the Company, made up to a date not more than six months before such meeting.

107. A Balance Sheet shall be made out in every year and laid before the Company in general meeting made up to a date not more than six months before such meeting. The Balance Sheet shall be accompanied by a Report of the directors as to the state of the Company's affairs, and the amount which they recommend to be paid by way of dividend, and the amount, if any, which they propose to carry to a Reserve Fund.

108. A copy of the Balance Sheet and Report shall, seven days previously to the meeting, be sent to the persons entitled to receive notices of general meetings in the manner in which notices are to be given hereunder (*i.e.*, by post to their registered address, or personally, or by advertisement in a newspaper).

Table A of the Companies Act, 1862 (which applied where the

BALANCE SHEET OF THE_____COMPANY, LIMITED,

MADE UP TO THE_____DAY OF_____19__

Capital and Liabilities.			£ s. d.	£ s. d.	Property and Assets.			£ s. d.	£ s. d.
I. Capital.		Showing—			**III. Property held by the Company.**		Showing—		
	1	The number of Shares				7	Immovable Property, distinguishing—		
	2	The amount paid per Share					(*a*) Freehold Land		
	3	If any arrears of Calls, the nature of the arrears and the names of the defaulters					(*b*) „ Buildings		
							(*c*) Leasehold „		
	4	The particulars of any Forfeited Shares					Movable Property, distinguishing—		
II. Debts and Liabilities of the Company.		Showing—				8	(*d*) Stock-in-Trade		
	5	The amount of Loans on Mortgages or Debenture Bonds					(*e*) Plant		
	6	The amount of Debts owing by the Company, distinguishing—					The cost to be stated, with deductions for deterioration in value as charged to the Reserve Fund or Profit and Loss		
		(*a*) Debts for which acceptances have been given			**IV. Debts owing to the Company.**		Showing—		
		(*b*) Debts to tradesmen for supplies of stock-in-trade or other articles				9	Debts considered good for which the Company hold bills or other securities		
		(*c*) Debts for Law Expenses				10	Debts considered good for which the Company hold no security		
		(*d*) Debts for Interest on Debentures or other Loans				11	Debts considered doubtful and bad		
		(*e*) Unclaimed Dividends					Any debt due from a Director or other officer of the Company to be separately stated		
		(*f*) Debts not enumerated above							
VI. Reserve Fund.		Showing—			**V. Cash and Investments.**		Showing—		
		The amount set aside from profits to meet contingencies				12	The nature of Investment and rate of interest		
VII. Profit and Loss.		Showing—				13	The amount of Cash, where lodged, and if bearing Interest		
		The disposal balance for payment of Dividend, etc.							
Contingent Liabilities.		Claims against the Company not acknowledged as debts							
		Moneys for which the Company is contingently liable							

Company had not special Articles of Association), prescribed a *pro forma* Balance Sheet for limited companies, and the form has been adopted by companies generally. It is not included in Table A of the Companies (Consolidation) Act, 1908, and is not obligatory, even for a Company registered without special Articles of Association. The general principle of the old statutory form of Balance Sheet is, however, still so largely followed by limited companies, that we have thought it to the advantage of the student to give a facsimile of the same. It appears on the previous page.

TRADING AND PROFIT AND LOSS ACCOUNT

Example.—The X Manufacturing Company, Ltd., was registered with a Nominal Capital of £75,000 divided into 5,000 Ordinary Shares of £10 each, and 25,000 6% Preference Shares of £1 each.

From the following Trial Balance prepare Trading and Profit and Loss Accounts for the year ended December 31st, and a Balance Sheet as on that date.

TRIAL BALANCE.		*Dr.*			*Cr.*		
Ordinary Share Capital Account					30,000	–	–
Preference do.					25,000	–	–
Stock (January 1st)		16,200	4	3			
Cash in hand		106	2	–			
Cash at Bank		3,196	13	–			
Purchases and Sales		25,123	7	–	63,200	4	8
Returns (Inwards and Outwards)		901	7	9	308	17	6
Manufacturing Expenses		5,314	2	–			
Do. Wages		13,210	–	–			
Salaries		1,525	–	–			
Travellers' Salaries, Commission, and Expenses		3,210	–	–			
Rates and Taxes		210	–	–			
Insurance		70	–	–			
General Expenses		1,420	–	–			
Discounts		1,283	2	–	578	3	–
Bad Debts		280	–	–			
Interest and Bank Charges		87	–	–			
Land and Buildings		10,000	–	–			
Machinery and Plant		17,000	–	–			
Debtors and Creditors		28,397	4	2	9,843	2	–
Patents		3,000	–	–			
Bad Debts Reserve (January 1st)					400	–	–
Profit and Loss A/c (Balance 1st Jan.)					810	–	–
Preference Dividend Paid		706	5	–			
Interim Ordinary Dividend Paid		900	–	–			
Reserve Account					2,000	–	–
	£	132,140	7	2	132,140	7	2

Before preparing the necessary accounts, the following adjustments are necessary :—

Charge Depreciation on Buildings at 3% per ann.
Do. on Plant and Machinery at 6% per ann.
Credit a further reserve of ½% on gross Sales, to the Bad Debt Reserve Account.
Write down Patents by 10%.
Reserve 2½% on Debtors for Discount.
Do. £250 for Directors' Fees.
Appropriate £2,000 to Reserve Account.
The value of Stock as on December 31st was £11,420 8s. 0d.
—(*Royal Society of Arts.*)

(For solution see pages 402 and 403.)

Points of Difference between Profit and Loss Account and Balance Sheet of a Limited Company and that of an Ordinary Partnership.—The following should be carefully noted by the student :—

(1) Appropriation Account.—This is really an extra Profit and Loss Account. It contains on the credit side the balance of profit left from the previous year, and also the net profit for the current year. Out of these total profits a certain sum is set aside for the Reserve Fund, a certain sum for the managing directors' remuneration, and any other provisions which the directors think fit to make. The balance then shows the sum available for distribution to the shareholders by way of dividend on the shares they hold. In some cases, only the net profit for the *current* year is inserted, and the appropriations made against this amount. The balance is brought down, and the amount brought forward from the previous year is then credited.

The balance of the last year's profit must *not* be shown in the *Profit and Loss Account*—a very common mistake of students. If we mix up last year's profit with this year's, we shall not be able to find the correct profit for the current year at all. Sometimes the balance of the Profit and Loss Account brought forward from the previous year happens to be a debit. In such cases it is placed on the debit side of the Appropriation Account, to be made good out of the current year's profits.

In some companies, in order to make the profits appear as large as possible, debenture interest and depreciation of the various assets are included in the Appropriation Account. From an accountant's point of view this is not correct. Such items are really charges against the profits, and not appropriations of it; they should therefore be shown in the Profit and Loss Account. It seems to be generally agreed now, however, that amounts written off Goodwill should be shown in the Appropriation Account rather than in the Profit and Loss Account.

(2) Profit and Loss shown on Balance Sheet.—In an ordinary partnership the profit or loss does not show as a separate item on

TRADING AND PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDING 31ST DEC., 19—

Dr. *Cr.*

To Stock, 1st Jan.					16,200	4	3	By Sales		63,200	4	8
„ Purchases	25,123	7	–					Less Returns		901	7	9
Less Returns	308	17	6									
					24,814	9	6				62,298	16 11
„ Manufacturing Expenses					5,314	2	–	„ Stock, 31st Dec.			11,420	8 –
„ „ Wages					13,210	–	–					
„ Balance (Gross Profit)					14,180	9	2					
					73,719	4	11				73,719	4 11
To Salaries					1,525	–	–	By Trading A/c (Gross Profit)			14,180	9 2
„ Travellers' Salaries, etc.					3,210	–	–	„ Discount			578	3 –
„ Rates and Taxes					210	–	–					
„ Insurance					70	–	–					
„ General Expenses					1,420	–	–					
„ Discount					1,283	2	–					
„ Bad Debts					280	–	–					
„ Interest and Bank Charges					87	–	–					
„ Bad Debts Reserve, ½%, £63,200					316	–	–					
„ Reserve for Discount on Debtors, 2½%, £27,681 4s. 2d.					692	–	7					
„ Reserve for Directors' Fees					250	–	–					
„ Depreciation—												
Patents, 10%, £3,000	300	–	–									
Buildings, 3%, £10,000	300	–	–									
Plant and Machinery, 6%, £17,000	1,020	–	–									
					1,620	–	–					
„ Balance (Net Profit)					3,795	9	7					
					14,758	12	2				14,758	12 2

APPROPRIATION ACCOUNT.

Dr.							*Cr.*					
To Preference Share Dividend	706	5	–				By Balance, 1st Jan.	810	–	–		
„ Ordinary „	900	–	–				„ Net Profit for Year	3,795	9	7		
				1,606	5	–					4,605	9	7
„ Transfer to Reserve				2,000	–	–							
„ Balance to Balance Sheet				999	4	7							
				4,605	9	7					4,605	9	7

BALANCE SHEET AS AT 31ST DECEMBER, 19—

Capital and Liabilities.							*Property and Assets.*					
Nominal Capital—							Land and Buildings	10,000	–	–		
5,000 Ordinary Shares of £10 each	50,000	–	–				*Less* Depreciation	300	–	–		
25,000 Preference Shares of £1 each	25,000	–	–								9,700	–	–
	75,000	–	–				Plant and Machinery	17,000	–	–		
							Less Depreciation	1,020	–	–		
Issued Capital—											15,980	–	
3,000 Ordinary Shares of £10 each				30,000	–	–	Patents	3,000	–	–		
25,000 Preference Shares of £1 each				25,000	–	–	*Less* Depreciation	300	–	–		
Reserve Account	2,000	–	–								2,700	–	–
Added this year	2,000	–	–				Stock-in-Trade				11,420	8	–
				4,000	–	–	Sundry Debtors	28,397	4	2			
Sundry Creditors				9,843	2	–	*Less* Bad Debts Reserve	716	–	–			
Reserve for Directors' Fees				250	–	–		27,681	4	2			
Profit and Loss A/c—							*Less* Discount Reserve	692	–	7			
Balance, 1st Jan.	810	–	–								26,989	3	7
Add Profit for Year	3,795	9	7				Cash in hand	106	2	–			
	4,605	9	7				Cash at Bank	3,196	13	–			
Less Preference Dividend	706	5	–								3,302	15	–
	3,899	4	7										
Less Ordinary Dividend	900	–	–										
	2,999	4	7										
Less Transfer to Reserve	2,000	–	–										
				999	4	7							
				70,092	6	7					70,092	6	7

the Balance Sheet, but is merged in the Capital or Drawings Account, a profit being added, and a loss deducted. In the Balance Sheet of a Limited Company, however, the profit or loss is shown as a separate item, a profit on the liabilities side, and a loss on the assets side. The capital of a limited company cannot be touched except by permission of the Court; profits cannot be added, or losses deducted; it can only be increased or decreased in a special statutory manner. The shareholder frequently does not receive a copy of the Profit and Loss Account, but only of the Balance Sheet. On the Balance Sheet, therefore, it is usual to show the balance of profit brought forward from the previous year, the net profit for the current year, and any deductions already made. The shareholder may then attend the general meeting and vote how the balance shall be distributed.

(3) **Order of Assets and Liabilities Reversed.**—On the Balance Sheet the assets are not stated in the cash order, neither are the liabilities stated in the order payable, but fixed assets and liabilities are stated first and are followed by floating assets and liabilities. The order follows very closely that of the Balance Sheet which was inserted in Table A of The Companies Act, 1862; very often, however, the Reserve Fund or Account is placed next to the Capital instead of lower down, but being profit, many accountants place it next to the balance of the Profit and Loss Account, and this would appear to be the best mode of stating it.

QUESTIONS ON CHAPTER XII

A

1. Define the terms "Company," "Joint Stock Company," "Incorporation." In what three ways can a company be incorporated?
2. By what Acts are companies governed? What partnerships must by law be registered as a company?
3. Mention the principal points of difference between a joint stock company and an ordinary partnership.
4. How may public and private companies be formed?
5. How many kinds of companies are there? Give a brief description of each.
6. What are the maximum and minimum numbers of persons (*a*) for a public company, (*b*) for a private company?
7. Explain the terms "Public Company," "One Man Company." What is a "Private" company under the Acts?
8. State briefly the advantages of a private company?
9. What particulars must be stated in the Memorandum of (*a*) company limited by shares, (*b*) company limited by guarantee, (*c*) unlimited company?
10. State briefly what is meant by the phrase "Limited liability."

B

1. Can companies be registered with the same names? Can a company prefix the words "Royal" or "Imperial" to its name? What is the procedure when a company wishes to change its name?
2. Under what circumstances and conditions may the word "Limited" be omitted from the name of a company?

3. Why must the objects of a company be set forth in its memorandum with great accuracy? Under what conditions may a company alter its objects as set forth in the memorandum? How is the alteration effected?
4. What are "Articles of association"? Are companies bound to have articles? What is meant by Table A?
5. What are the requirements of section 12 of the 1908 Act as regards articles? What is the procedure for altering or adding to a company's articles?
6. What is meant by "Registering" the memorandum and articles? Is each member of a company entitled to a copy of the memorandum and articles?
7. Explain the following:—Registration fees, preliminary expenses, certificate of incorporation.
8. Is the certificate of incorporation complete evidence of registration? Does it entitle a company to commence business?
9. What is a prospectus? State briefly the requirements of section 81 of the 1908 Act.
10. What is meant by a "Statement in lieu of Prospectus"? When is it required? What are its principal contents? Is a statement required of every company?

C

1. What restrictions are imposed on the appointment of directors? Do these restrictions apply to all companies?
2. What restrictions are imposed on the allotment of shares? Do these restrictions apply to all companies?
3. Explain the terms "Minimum subscription," "Letter of Allotment." What stamp does the latter require?
4. What restrictions are imposed on companies as regards the commencement of business? Do these restrictions apply to all companies?
5. What "Return of Allotments" must be made by companies? What further particulars are required as regards shares which have not been issued for cash?
6. When must stock and share certificates be issued by a company? Are they evidence of the holder's title thereto?
7. Must shares be numbered? Can a company purchase its own shares? What is meant by money due on shares being a "Specialty" debt?
8. How are shares transferred? Is a transferor ever liable for the amount due on shares which he has transferred? What are "Transfer fees"?
9. What is meant by "Unlimited liability of directors"?
10. Is it compulsory for a company to have a registered office and a seal? What are the requirements of the 1908 Act with respect to the name of a company?

D

1. What are the provisions of the 1908 Act with reference to (*a*) the annual general meeting, (*b*) the statutory meeting and statutory report? What must the latter state? Must a statutory report be made by every company?
2. What is an extraordinary general meeting, and how is it called? What are the statutory provisions as to meetings and votes?
3. Explain the following terms:—Ordinary resolution, extraordinary resolution, proxy, special resolution, registration of resolutions?
4. What statutory powers has a company with reference to the different amounts payable on shares?
5. What statutory powers has a company with reference to (*a*) the alteration of share capital, (*b*) the reorganisation of share capital?
6. What is meant by the Reserve Liability of a limited company?
7. What mortgages are compelled to be registered by the 1908 Act, and

within what time? Can anyone inspect the Register of Mortgages kept by the registrar of joint stock companies?

8. Can a company issue perpetual debentures? Has a company power to re-issue redeemed debentures?

9. Explain the terms "Trust deed," "Trustee for debenture holders," "Floating charge." What are the particular advantages of the latter?

10. What four special rights has a debenture holder? Which is most frequently exercised, and why?

E

1. What is underwriting? Is an agreement to *place* shares an underwriting agreement? Under what conditions may a company pay commission to persons for procuring subscriptions to shares?

2. Must commission paid in respect of shares or debentures, or discount allowed on debentures, be made known to the shareholders?

3. What statutory provisions are there with reference to the audit of a company? Must the auditor's report and balance sheet be published? Have debenture holders in joint stock companies a right to receive and inspect the auditor's report and balance sheet?

4. What are the rights and duties of an auditor as laid down by section 113 of the 1908 Act?

5. What are the statutory requirements for companies incorporated outside the United Kingdom which establish a place of business within the United Kingdom?

6. What is share capital? Explain the following terms with reference to a company's capital:—Nominal, authorised, registered, issued, subscribed, called-up, paid-up, uncalled, reserve. Apply the above terms to the following example:—A Company was formed with a capital of £250,000 in shares of £1 each, and duly incorporated. It issued to the vendors 50,000 shares of £1 each as fully paid, in part payment of the purchase consideration. It also offered to the public 150,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share one month later, and the balance as and when required. All the money was duly received with the exception of the call of 5s. on 300 shares.

7. What is a share? Explain the following kinds:—Ordinary, preferred ordinary, deferred ordinary, preference, cumulative preference, deferred, founders', management.

8. What is a debenture? Explain the following kinds:—Simple or naked, mortgage, floating, bearer, registered.

9. What is the difference between (*a*) shares and stock, (*b*) debentures and debenture stock, (*c*) a shareholder and a debenture holder? Why are shares and debentures converted into stock?

10. Explain the following terms with reference to the issue of shares and debentures:—At par, at a premium, at a discount, over-subscribed, calls in arrear, calls paid in advance.

EXERCISE XII

1. A Limited Company issued, at par, 200,000 Ordinary Shares of £1 each, and £80,000 Debentures, in bonds of £100 each; which were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, post to Ledger, draw out Trial Balance, and make a Balance Sheet.

2. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, and £80,000 Debentures at a premium of 5 %; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book and Ledger entries, and draw up Trial Balance and Balance Sheet.

3. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at £95 per bond; which were all subscribed and fully paid up. Make the necessary Journal, Cash Book, and Ledger entries, and draw up Trial Balance and Balance Sheet.

4. A Limited Company issued 200,000 Ordinary Shares of £1 each, payable 2s. 6d. per share on application, 7s. 6d. per share on allotment, and 5s. per share on each of two subsequent calls. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger, and show Trial Balance and Balance Sheet.

5. A Limited Company issued 200,000 Preference Shares of £1 each at 22s. 6d. per share, payable 7s. 6d. per share on application (including the premium), 5s. per share on allotment, and the balance in two later calls each of 5s. per share. Make the necessary Journal, Cash Book, and Ledger entries, and show Trial Balance and Balance Sheet.

6. A Limited Company issued, at par, £80,000 Debentures in bonds of £100 each, payable 20% on application, 30% on allotment, and the balance three months later. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger and draw out Trial Balance, and show also the Balance Sheet.

7. A Limited Company issued £80,000 Debentures, in bonds of £100 each, at a premium of 10%, payable 20% on application (including the premium), and 90 % on allotment. All the money was duly received. Make the necessary Journal, Cash Book, and Ledger entries, and show also the Trial Balance and Balance Sheet.

8. A Limited Company issued £80,000 6% First Mortgage Debentures, in bonds of £100 each, at a discount of 10%, payable £20 per bond on application, and the balance on allotment. All the money was duly received. Make the necessary Journal and Cash Book entries, post to Ledger and draw up Trial Balance, and show also the Company's Balance Sheet.

9. A Limited Company offered for subscription 200,000 shares of £1 each, payable 2s. 6d. per share on application, and 5s. per share on allotment. Applications were received for 230,000 shares. The deposits on 15,000 shares were returned to those persons to whom no shares were allotted. The deposits on the other 15,000 shares were carried forward to the Allotment Account, these subscribers having paid for more shares than were allotted to them. The moneys payable on allotment were duly received. Make the necessary entries in the Company's Journal, Cash Book, and Ledger, to record the above transactions.

10. A Limited Company with a registered capital of £250,000, in shares of £1 each, issued 200,000 of such shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, 5s. per share three months later, and the balance as and when required. All moneys payable on allotment were duly received. But when the call of 5s. per share was made, one shareholder failed to pay the amount due on his 250 shares; and another shareholder, who held 200 shares, paid them right up in full. Make the necessary Journal and Cash Book entries in the company's books to record the above transactions, and show the Company's Balance Sheet.

11. Make the Journal entries necessary in order to record the undermentioned transaction :—

The Ravary Printing Machine Co., Ltd., issued on June 30th, 100,000 Ordinary £1 shares at a premium of 5s. per share, payable on application. The

shares applied for were payable as to 10s. per share on application, and as to 15s. per share upon allotment. The issue was fully subscribed by the public. Allotment duly took place for the whole issue on July 15th.—(*London Chamber of Commerce.*)

12. The Blarneystone Diamond Syndicate, Ltd., has a Nominal Capital of £80,000, divided into 10,000 8% Preference Shares of £4 each and 40,000 £1 Ordinary Shares. On January 2nd, 8,000 Preference and 20,000 Ordinary Shares are applied for, and 5s. per share is received and paid into the Company's Bank. On February 1st these Shares are allotted ; 10s. per share being payable on allotment, £3,500 is received for Preference, and £8,000 for Ordinary during February. On March 1st Calls are made, *viz.*, £2 per share Preference and 5s. per share Ordinary, and during March £13,000 is received for Preference Call, and £3,200 for Ordinary Call. Enter the foregoing transactions, post to Ledger, and state amounts unpaid on each class of share.—(*West Riding of Yorkshire.*)

13. The Chilworth Motor Co., Ltd., was registered in 19—. The Nominal Capital of the Company consists of 200,000 6% Preference Shares of £1 each, and 200,000 Ordinary Shares of £1 each. During the year the whole of the Preference Shares and 100,000 of the Ordinary Shares were issued to the public and fully paid up, with the exception of £100 calls in arrear on the Ordinary Shares.

The company was very successful and, during the year offered the balance of the Ordinary Shares to the public at a premium of 10s. per share. All the issue was taken up and duly allotted, payable, as to 12s. 6d. per share on application (including the premium), and 7s. 6d. per share one month after allotment. No further calls were made during the year.

Set out the Capital of the Company as it would appear in the Balance Sheet as on December 31st.—(*London Chamber of Commerce.*)

14. Enter the following transactions of the Gold Mines Company, Ltd., and prepare Balance Sheet. The company was formed on the 2nd February, and 50,000 shares of £1 each were offered to the public for subscription.

Feb. 2. Received applications for 120,000 shares with a payment of 2s. 6d. on each share.
15. Allotted 50,000 shares (due on allotment 2s. 6d. per share), retaining out of amount overpaid on applications, on account of allotment, £2,000, on account of first call, £2,000, on second call £500, and returning £4,250 to those applicants who received no allotment.
Mar. 1. Balance of amount due on allotment received this day.
15. Made call of 5s. per share, due 1st April.
Apr. 1. Received on account of call due this day, £7,898.
16. Made call of 5s. per share, due 1st May.
27. Received on account of calls, £2,600. Of this amount one shareholder paid up the balance on his shares in full, that is, on second call account, £50, on final call account, £50
May 1. Received on account of second call, £6,842.
17. Final call of 5s. per share made, due 1st June.
27. Received on account of second call, £4,421.
June 1. Received on account of final call due this day, £10,476.
Sep.17. Received on account of second call, £565 ; on final call account, £1,862.

—(*Chartered Accountants adapted.*)

15. The Nominal Capital of Messrs. William Pearson & Co., Ltd., consists

of 50,000 shares of £1 each. On December 31st, the Ledger Balances of the Company were as follows :—

Share Capital (Issued 30,000 shares of £1 each with 10s. per share called up)	£15,000	Stock (January 1st)	£8,800
Unpaid Calls	150	Manufacturing Wages	12,450
Cash in hand	190	Salaries	1,230
Sundry Creditors	1,960	Discount Cr.	48
Sundry Debtors	3,640	Carriage and Cartage	395
Cash at Bank	1,150	Rates and Taxes	111
Reserve Fund	4,000	Insurance	98
Machinery and Plant	6,000	Sales	62,850
Mortgage Debentures (45 debentures of £100 each at 5% interest)	4,500	Trade Expenses	382
Freehold Premises	11,500	Repairs	174
		Purchases	41,800
		Unpaid Dividends	252
		Bad Debts	191
		Office Expenses	124
		Interest paid on Debentures	225

Stock was taken as on December 31st, and was valued at £6,820.

Before closing the accounts the following adjustments are necessary :—

Make a provision of 5% for bad and doubtful debts. Depreciation at the rate of 10% is to be written off the Machinery and Plant Account. Prepare Trading and Profit and Loss Accounts for the year ended December 31st. Take £1,000 to the Reserve Fund, and prepare a Balance Sheet as on that date. —(*London Chamber of Commerce.*)

16. From the following Balances (shown by the books of the Universal Jewellery Co., Ltd., on the 31st December), prepare Trading Account, Profit and Loss Account, and Balance Sheet.

Purchases	£569,842	Cash (Office)	£125
Stock (January 1st)	65,892	Bad Debts	476
Bank Overdraft	8,060	Repairs to Building	56
Patents, Unexpired	1,560	Interest on Overdraft	260
Bills Payable	30,900	Rents from Property *Cr.*	260
Share Capital	150,000	Plant and Machinery	10,140
Unclaimed Dividends	106	Salaries and Directors' Fees	3,400
Freehold Premises (Jan. 1st)	5,026	Bills Receivable	6,060
Wages (remunerative)	25,090	Rates and Taxes	1,578
,, (unremunerative)	2,060	Debtors	5,175
Unpaid Calls	200	Sundry Office Expenses	275
Bad Debts Reserve (1st Jan.)	150	Balance Profit and Loss Account (Loss from previous year)	7,050
Sundry Creditors	9,086		
Outward Returns	1,500		
Sales	504,203		

Value of Stock 31st December, £120,550.

The following adjustments were necessary before closing the accounts :—

(*a*) Depreciation to be written off Plant and Machinery at the rate of 7½% per annum, off Patents at 15% per annum, and Premises 5%.

(*b*) Provision for bad and doubtful Debts 5%.—(*National Union of Teachers.*)

17. From the following Trial Balance of the Accounts of a Manufacturing Company (whose Authorised Capital consists of 15,000 Ordinary Shares of

£10 each) prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

Capital issued and fully paid up, 9,000 shares of £10 each	£90,000	Insurance	£190
Stock (January 1st)	32,000	General Expenses	2,640
Cash in hand	150	Discounts (balance) *Dr.*	1,800
Cash at Bank	2,900	Bad Debts	570
Purchases	52,350	Interest and Bank Charges	350
Sales	136,500	Land and Buildings	22,250
„ Returns	400	Machinery and Plant	35,600
Purchases Returns	750	Sundry Debtors	52,500
Manufacturing Charges	11,500	Sundry Creditors	21,750
Manufacturing Wages	28,550	Patents	5,000
Salaries	1,500	Bad Debts Reserve (January 1st)	2,600
Trade Expenses	6,850	Profit and Loss (*Cr.* balance January 1st)	750
Rates and Taxes	250	Reserve Account	5,000

Charge Depreciation on Land and Buildings Account at 3% per annum, and on Machinery and Plant Account at 6%. Make a Reserve of 5% on the Sundry Debtors for Bad Debts; write down Patents Account by 10%; carry forward £90 of Insurance; and charge £500 as Directors' Fees. The value of the Stock, as on December 31st, was agreed at £23,700. Charge 10% on net profits as remuneration to the Managing Director, and appropriate £2,500 to the Reserve Account, carrying forward the balance.—(*Royal Society of Arts.*)

18. The Brown Box Co., Ltd., was registered with a Nominal Capital of £10,000 divided into 5,000 Ordinary Shares of £1 each and 5,000 6% Preference Shares of £1 each. From the following Trial Balance, extracted from the books of the company, prepare a Trading Account and a Profit and Loss Account for the year ended December 31st, and a Balance Sheet as on that date:—

Ordinary Share Capital	£4,800	–	–	Ordinary Share Dividend	£114	–	–
Preference Share Capital	3,000	–	–	Bad Debt Reserve (1st January)	188	14	8
Freehold Land and Buildings	3,700	–	–	Manufacturing Wages	2,014	1	9
Furniture and Fixtures	946	6	10	Salaries	505	14	8
Stock (1st January)	1,929	14	7	Sales	10,124	14	2
Plant and Machinery	1,727	10	2	„ Returns	101	2	10
Rates and Taxes	87	14	1	Insurance	39	1	2
Carriage	422	4	8	Directors' Fees	50	–	–
Trade Expenses	39	1	1	Purchases	4,129	16	8
Lighting and Heating Expenses	72	2	6	„ Returns	94	12	4
General Expenses	127	16	10	Sundry Debtors	3,764	17	10
Discount Account (balance) *Cr.*	13	2	0	Sundry Creditors	2,144	5	1
Preference Share Dividend	171	–	–	Profit and Loss Account (*Cr.* balance)	472	7	2
				Bank Charges	10	2	1
				Cash at Bank	822	5	7
				„ in hand	63	2	1

Before preparing the Accounts (as above required), the following adjustments are necessary :—

(1) Charge Depreciation on Land and Buildings at 2½% per annum.
(2) Do. Furniture and Fixtures at 5% per annum.
(3) Do. Plant and Machinery at 10% per annum.
(4) Make the Bad Debt Reserve up to £400.
(5) Carry forward the following unexpired amounts :—
(*a*) Insurance . . . £9 7 6
(*b*) Rates and Taxes . . £17 8 2

The value of the Stock on December 31st, was certified by the Managing Director at £1,721 17s. 3d.—(*Royal Society of Arts.*)

19. The secretary of the Cheshire Manufacturing Co., Ltd., takes out his balances on December 31st, and submits to you the following particulars, from which prepare Trading Account, Profit and Loss Account, and Balance Sheet :—

Nominal Capital, £150,000, divided into 5,000 Preference Shares of £10 each, and 10,000 Ordinary Shares of £10 each.

5,000 Preference Shares, £10 each, £2 paid .	£10,000	Postage, etc. . . .	£86
10,000 Ordinary Shares, £10 each, £5 called up .	50,000	Rates, Taxes, and Insurance	524
150 5% Mortgage Debentures of £100 each, issued at 95	15,000	Travelling Expenses .	302
Cost of issue of Debentures	750	Interest and Bank Charges	75
Purchases . . .	43,249	Directors' Fees . .	550
Land and Buildings .	25,100	Stock (January 1st) .	11,420
Fuel	570	Sundry Debtors . .	24,300
Plant and Machinery .	5,620	Sundry Creditors . .	9,160
Repairs	445	Carriage Inwards . .	220
Loose Tools (January 1st)	1,752	Goodwill . . .	10,000
Office Expenses . .	363	Carriage Outwards . .	410
Sales	53,847	Debenture Interest paid .	375
Wages	9,371	Profit and Loss Account, balance of loss brought forward from last account	2,243
Discounts Received .	324	Unpaid Calls, Ordinary Shares . . .	250
Discounts Allowed . .	517	Bank Overdraft . .	1,525
Salaries	975	Cash in hand . . .	114
Bad Debts . . .	275		

Reserve for Debenture Interest, £375. Reserve for Wages, £50. Provide for Bad Debts, £400 ; Insurance prepaid, £21. Depreciate Land and Buildings 1%, and Plant and Machinery 10%. Reserve for Discounts, 5% on Sundry Debtors and 2½% on Sundry Creditors. Stock at December 31st, £18,763.

Value of Loose Tools at December 31st, £2,000.—(*Lancashire and Cheshire Union.*)

20. The Highburn Manufacturing Co., Ltd., with a Nominal Capital of 40,000 Ordinary Shares of £1 each, by the Memorandum and Articles of Association have power to issue 200 Debentures of £50 each bearing interest at 4½% per annum.

On June 30th, the Ledger Balances were abstracted as follows :—

Share Capital, 40,000 Shares of £1 each, 15s. called		£30,000	
Calls in Arrear		205	
Debentures issued, 100 at £50		5,000	
Stock (July 1st)		6,537	
Purchases		22,448	
Returns to Creditors		1,745	
Sales		46,728	
Returns from Customers		1,174	
General Trade Expenses		1,014	
Wages		13,632	
Salaries		2,042	
Travelling Expenses		758	
Advertising		870	
Rents, Rates, Taxes and Insurance		858	
Discount (*Dr.* balance)		£314	
Bank Interest and Commission *Dr.*			£114
Bad Debts written off			249
Premises			12,450
Machinery and Plant			18,750
Fixtures and Fittings			3,750
Sundry Debtors			12,160
Sundry Creditors			7,728
Interest Paid on Debentures			214
Dividend Paid			1,415
Reserve Fund			5,000
Reserve for Bad Debts (1st July)			760
Cash in hand			43
Cash at Bank			1,427
Profit and Loss Account, *Cr.* balance (July 1st)			3,463

The Stock on hand on June 30th, = £6.900.

Draw up a Trading and Profit and Loss Account, after making the following adjustments :—

(*a*) Depreciate the Machinery and Plant by 10%, the Fixtures and Fittings by 10%. (*b*) Make up the Reserve for Bad Debts to 7½% of the Book Debts. (*c*) Insurances are paid in advance to the extent of £96. (*d*) Make out a Balance Sheet as at June 30th.—(*Union of Educational Institutes.*)

21. The North London Engineering Co., Ltd., was registered on January 1st, with a Nominal Capital of £100,000, in Ordinary Shares of £1 each. It had power to issue £15,000 Mortgage Debentures of £100 each, bearing interest at 4% per annum. It took over on that date an existing engineering business and commenced manufacturing. Stock was taken and the books balanced, and accounts prepared annually; and at the close of the year Stock was taken and valued at £14 250. The following adjustments were necessary before closing the accounts :—

(*a*) Depreciation to be written off Plant and Machinery at the rate of 10%, and off Patents Account at 20%.

(*b*) The half-year's Debenture Interest due on December 31st to be passed through the books.

(*c*) A 5% provision for Bad and Doubtful Debts to be made.

Make such adjustments and prepare a Trading Account, a Profit and Loss Account, and a Balance Sheet from the following balances (December 31st), after carrying £1,500 profit to the Reserve Account.

LEDGER BALANCES (DECEMBER 31ST)

Share Capital 60,000 Shares of £1 each issued and 10s. per share called up		£30,000	
Unpaid Calls		300	
Patents			£900
Cash in hand			320
Sundry Creditors			4,095
Sundry Debtors			7,240
Reserve Account			8,500

LEDGER BALANCES (DECEMBER 31ST)—*continued*

Machinery and Plant	£12,480			Unpaid Dividends	£58
Mortgage Debentures	9,000			Mortgage Debenture Interest	180
Freehold Buildings (1st January)	24,000			Provision for Auditors' Fees	75
Stock (January 1st)	17,200			Bad Debts	578
Manufacturing Wages	22,100			Interest Payable and Bank Charges	138
Salaries	2,400			Additions to Buildings during the year	3,840
Carriage	560			Holdfast Bank Limited (overdraft)	4,200
Rates, Taxes and Insurance	252			Bad Debt Reserve (January 1st)	321
Sales	121,580				
Trade Expenses	721				
Repairs	240				
Rents Receivable	374				
Purchases	84,604				

—(*Royal Society of Arts.*)

22. The Nominal Capital of the L. and C. Engineering Co. Ltd., is:—£10,000 divided into 10,000 Ordinary Shares of £1 each; £20,000 divided into 20,000 7% Cumulative Preference Shares of £1 each; and the Company is authorised to issue £10,000 divided into 200 5% First Mortgage Debentures of £50 each. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and Balance Sheet as on 31st March.

Ordinary Share Capital	£10,000	–	–	Stock (1st April)	£2,760	–	–
Preference Share Capital	20,000	–	–	Wages, Productive	2,576	10	–
Arrears on Ordinary Shares	70	–	–	Carriage (Inwards)	320	5	–
200 5% First Mortgage Debentures £50 each, £30 paid	6,000	–	–	Carriage (Outwards)	167	10	–
Sundry Creditors	5,609	–	–	Coal and Coke	250	–	–
Sales	24,698	–	–	Loose Tools (1st April)	1,890	–	–
Returns off Purchases	287	–	–	Rent, Rates, etc.	236	10	–
Profit and Loss (*Cr.* balance, 1st April)	169	10	–	Sundry Expenses	157	10	–
Plant and Machinery	15,000	–	–	Discounts Allowed	760	–	–
Patents	3,960	10	–	Bad Debts	127	10	–
Office Furniture	127	–	–	Directors' Fees	200	–	–
Sundry Debtors	12,125	10	–	Interim Preference Dividend paid, October 15th	665	–	–
Purchases	15,965	16	–	Bank Charges	57	10	–
Returns off Sales	267	10	–	Debenture Interest, less tax	285	–	–
Salaries	200	–	–	Cash in hand	73	4	–
Goodwill	9,788	5	–	Lloyd's Bank, Ltd. *Cr.*	1,067	10	–
				Discounts Received	200	–	–

Stock on hand, March 31st, £3,025 10s. Loose Tools, March 31st, £1,870 Write off Plant and Machinery, 10% per annum. Write off Office Furniture and Fittings, 5% per annum. Write off Patents, 20% per annum. Reserve £200 for future Discounts, and £150 for Bad Debts.—(*Lancashire and Cheshire Union.*)

23. The following are the balances of the Success Property and Investment Company, Limited, at 31st December, and they include all the transactions of the Company, for the year except as understated.

Capital 5,000 Shares of £10 each fully paid	£50,000	–	–	Rents Received	£3010	–	–
4% Debenture Stock	50,000	–	–	Interest and Dividends Received	4,828	7	6
Reserve Fund	9,000	–	–	Salaries	1050	10	–
Profit and Loss (*Cr.* balance, 1st Jan.)	320	10	6	Sundry Expenses	618	7	3
Freehold Properties	40,000	–	–	Taxes	315	10	–
Investments	65,310	–	–	Repairs to Properties	371	7	6
Bills Receivable	3,230	–	–	Bad Debts	62	2	6
Sundry Debtors	322	10	–	Cash in Bank	4172	7	2
Office Furniture	240	–	–	Cash in hand	22	5	4
Sundry Creditors	56	1	9	Interest on Debenture Stock to 30th September	1,500	–	–

(*a*) Prepare Trial Balance of the above balances.
At 31st December, there are due :—
To the Company—
Rents, £120 ; Dividends and Interest, £275.
By the Company—
Repairs, £61 5s. ; Salaries, £105 ; Quarter's Interest on Debenture Stock, £500.

As at 31st December, the directors of the Company decide to use the profits as follows :—

(1) To treat a Sundry Debtor of £20 as a bad debt and write off all Bad Debts. (2) To write 10% off Office Furniture for Depreciation. (3) To transfer £500 to Reserve Fund. (4) To pay on 1st February next, a dividend of 6% on the Share Capital for year. (5) To carry forward balance of Profit.
(*b*) Frame Journal entries required to close the books.
(*c*) Frame Profit and Loss Account for the year.
(*d*) Frame Balance Sheet at 31st December.

—(*Civil Service, 2nd Division Clerks.*)

24. On 31st December, the Trial Balance of John Stephens & Co., Ltd., stood as follows. Prepare a Profit and Loss Account and Balance Sheet, after making necessary adjustments.

The Company was registered on 15th December, and commenced trading on 1st January. The Capital of the Company is £80,000, divided into 30,000 5 % Cumulative Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. The whole of the Preference Shares and 40,000 of the Ordinary Shares have been issued. The Preference Shares are fully paid and 15s. per share has been called up on the Ordinary Shares. The dividends upon the Preference Shares are payable 1st April and 1st October.

Mortgages at 4% per annum	£10,000	–	–	Interim Dividend paid on Preference Shares, less tax, 1st October	£1,073	8	9
Sundry Debtors	9,507	3	9	Sundry Creditors	7,194	–	9
Patent Rights, 2 years expired	3,000	–	–	Chief Rents *Dr.*	12	4	8
Royalties	294	8	11				

Rents of Cottages *Cr.*	£102	9	6	Management and Office Salaries .	£1,530	– –
Land and Buildings .	17,600	–	–	Transfer Fees . .	1	12 6
Plant and Machinery	28,896	14	–	Wages . . .	20,921	11 8
Office Furniture .	412	10	–	Formation Expenses	2,397	18 2
Goodwill . .	10,526	5	4	Calls in Arrear .	50	– –
Cash in hand . .	78	4	6	Suspense Account *Dr.*	1,316	12 9
Bank . . .	4,493	2	8	Sales . . .	84,326	10 1
Interest . . .	408	–	–	Cottages . .	2,000	– –
Interest on Mortgages to June 30th, less tax . .	190	16	8	Trade Expenses .	6,772	6 2
Directors' Fees .	350	–	–	Purchases . .	49,793	4 10

The Stock at 31st December was £3,197 16s.

Write 2½% off Land and Buildings, 6% off Machinery and Plant. 10% off Goodwill, 25% off Formation Expenses, and 7½% off Office Furniture. —(*Lancashire and Cheshire Union.*)

25. Messrs. John Bolton & Co., Ltd., was registered as a limited company in 19—. The nominal Capital of the Company consists of 75,000 Ordinary Shares of £1 each. The Company is also empowered by its Memorandum of Association to issue 250 Debentures of £100 each, carrying interest at the rate of 4½% per annum.

The books were balanced as on December 31st, on which date the Stock in hand was valued at £11,840.

The Ledger Balances were as follows :—

Share Capital (Issued 50,000 Shares of £1 each with 15s. per share called up	£37,500	Reserve Fund . .	£6,800
Calls Paid in Advance .	125	Discount (debit balance) .	829
Mortgage Debentures (Issued 100 debentures of £100 each) . .	10,000	Returns from Customers .	1,482
Unpaid Calls (Ordinary Shares) . . .	250	Returns to Creditors .	3,421
Stock (January 1st) .	9,875	Bad Debts written off .	348
Cash in hand . . .	60	Interest paid on Debentures	450
Cash at Bankers . .	3,104	Freehold Land and Buildings	22,280
Purchases . . .	32,960	Machinery and Plant .	17,800
Sales	61,842	Patents	1,200
Trade Charges . .	982	Sundry Debtors . .	20,140
Wages	19,462	Sundry Creditors . .	11,861
Salaries	1,291	Bad Debts Reserve (1st January) . . .	940
Travelling Expenses .	871	Profit and Loss Account (balance 1st January) .	3,286
Rates and Taxes . .	321	Dividend (paid on Ordinary Shares on February 14th)	1,875
Insurance (Fire) . .	195		

The following adjustments are necessary :—

1. Provide for Depreciation on the Machinery and Plant at the rate of 10%, and on the Patents at the rate of 15%.
2. Make a provision of 5% for Bad and Doubtful Debts.

3. Carry forward £50 of the amount paid for the Fire Insurance representing the unexpired period covered by the premiums.

4. It was decided by the directors not to add to the Reserve Fund, but a bonus of 5%, on the net profits for the year, was voted for distribution amongst the departmental managers. Provide for this before closing the accounts.

Prepare Trading and Profit and Loss Accounts for the year ended December 31st, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

26. Yorkshire Tweed Co. Ltd., Nominal Capital £10,000, divided into 5,000 6% Cumulative Preference Shares of £1 each, and 5,000 Ordinary Shares of £1 each.

LEDGER BALANCES (DECEMBER 31ST)

Preference Share Capital, 3,000 Preference Shares fully paid	£3,000	–	–	Rates, Gas, and Insurance	£203	9	6
Ordinary Share Capital, 4,119 Ordinary Shares fully paid	4,119	–	–	Profit and Loss Account (January 1st) *Dr.*	20	11	2
First Mortgage Debentures, 4%	2,000	–	–	Repairs	176	14	2
Machinery Account (January 1st)	4,000	–	–	Debenture Interest to June 30th	40	–	–
„ (additions during year)	200	–	–	Trading Account, Stock (Jan. 1st)	3,519	4	6
Freehold Mill	3,000	–	–	Dividend Account	90	–	–
Engines, Boilers, and Shafting (Jan. 1st)	500	–	–	Commission Account	519	11	8
Cards, Bobbins, etc. (January 1st)	900	–	–	Bank Charges	32	11	1
„ (additions during year)	300	–	–	Sales	32,106	14	5
Materials Account	18,469	15	7	Sales Ledger Balances	6,000	–	9
Dyeing and Finishing	1,216	3	6	Purchase Ledger Balances	4,810	9	10
Carriage	533	1	10	Discount on Sales	511	15	8
Trade Expenses	195	12	4	Bad Debts Account *Cr*	116	9	3
Motive Power	691	7	8	Bills Payable	2,220	–	–
Wages—				Cash	32	11	9
Mill	£8,437	16	9	Bank *Cr.*	988	6	5
Mechanics and Joiners employed in Repairing	142	1	9	Discount on Purchases	371	9	9
					8,579	18	9

Stock, December 31st, £3,699 19s. 7d. Depreciation: write off Machinery 7½% per annum; Engines, Boilers, and Shafting, 10% per annum; Cards Bobbins, etc., 25% per annum; Additions to be depreciated for half a year Reserve 3% of Debtors' Balances for Discount and £200 for Bad Debts Reserve, 5% of Creditors' Balances for Discount. Take into account the following:—The Rent of Telephone, £10, has been charged to Trade Expenses, and paid for year ending September 30th next; Insurance, the Fire Policy for £8,000 at a premium of 10s. % expires at Midsummer next; Rates, the District Rate for half-year ending March 31st next, is not yet paid or entered in the books, this rate is 2/– in the £ on the rateable value of the mill, £200; Preference Dividend paid up to June 30th; Managing Director is entitled to 10% bonus on the net profit for the year after charging Debenture Interest. You are required to prepare Trading and Profit and Loss Account and Balance Sheet.—(*West Riding of Yorkshire.*)

27. The following is a list of the balances extracted from the books of The Modern Manufacturing Co. at December 31st :—

Plant and Machinery.	£6,620	–	–	Work in Progress (1st January) . .	£2,946	14	2
Office Furniture and Fixtures . .	315	6	2	Legal and Accountancy Charges .	35	–	–
Land and Buildings .	6,000	–	–	Wages . . .	3,972	19	3
London Banking Co., *Cr.* . . .	4,500	–	–	Discounts (Debit Balance) . . .	346	11	4
Bad Debts . .	557	2	1	Bank Interest and Charges . .	199	4	1
Debenture Interest .	230	–	–	Salaries . . .	3,366	17	5
Stock-in-Trade (1st January) . .	5,240	10	4	Reserve Account .	1,000	–	–
Materials Purchased .	3,994	3	6	Cash in hand . .	43	10	–
Carriage Inward .	210	4	4	Debentures . .	3,000	–	–
Coal, Gas, Water and Electricity . .	344	5	–	Sundry Book Debts .	11,462	3	4
Rates, Taxes and Insurance . .	283	2	10	Carriage Outward .	140	–	–
Travelling . .	327	15	6	Creditors . . .	1,642	10	6
Sales . . .	19,432	14	4	Revenue Account .	2,360	4	6
				Owing by Directors .	300	–	–

The Nominal Capital is £20,000, of which £15,000 has been subscribed.

You are requested from the above figures to prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, bearing in mind the following facts :—

The Stock-in-trade at the close is £4,922 3s. 6d., in addition to Work in Progress amounting to £3,113 1s. 4d. It is necessary to depreciate Office Fixtures 5%, Plant and Machinery 7½%, Land and Buildings 2½%, and to Reserve £500 as a Discount and Bad Debt Reserve against Book Debts. —(*Incorporated Accountants.*)

28. Draw up a Trading and a Profit and Loss Account for the year, and Balance Sheet as at December 31st, of the Oil and Gas Motor Co., from the following information :—

BALANCES (31ST DECEMBER)

Land and Buildings .	£5,000	Erecting, Fitting and Carriage	£2,400
Machinery and Plant .	8,800	Repairs, Renewal and Maintenance . .	800
Patterns . . .	3,300	Coal, Coke, Gas and Water	450
Stock-in-Trade (1st Jan.) .	9,000	Printing, Advertising and Stationery . . .	250
Office Furniture and Fittings	400	Rent, Rates, Taxes and Insurance . . .	260
Loose Tools (1st January)	2,500	Travelling and Commission	1,400
Patents	1,000	General Expenses . .	450
Sundry Debtors .	10,500	Discounts and Bad Debts Reserve (1st January) .	200
Cash in hand . . .	100	Directors' Fees . .	100
Profit and Loss Account (1st January) *Dr.* .	4,270	Interest on Debentures .	900
Subscribed Capital . .	20,000	Bank Interest and Commission . . .	70
Debentures 6% . .	15,000	Legal and Accountancy Charges . . .	150
Sundry Creditors . .	7,000	Royalties Paid . .	200
L. and N. Bank, Ltd., Overdraft . . .	900		
Sales	40,000		
Purchases . . .	19,000		
Manufacturing Wages .	11,800		

Write off depreciations from :—Land and Buildings 3%, Machinery and Plant 5%, Patterns 10%, Patents 10%, Office Furniture 5%, and make a provision of 6% on the Sundry Debtors for Discounts and Bad Debts.

On December 31st, the Stock was valued at £9,500, and the Loose Tools at £2,300.—(*Chartered Accountants.*)

REVISION EXERCISE XII

1. Prepare a ruling of a Purchase Invoice Analysis Book of any business you are acquainted with, and show how a Purchase Ledger may thus be dispensed with for a business which pays all accounts on a fixed monthly pay-day.—(*Chartered Accountants.*)

2. E, F and Co., Timber Merchants, of Liverpool, sell a quantity of timber on 1st February for £350 to J., J. and Co., Builders, of Manchester, and draw on them at three months, charging interest at 5% per annum and bill stamp. E, F and Co., after one and a half months, discount the bill at 4% with their bankers, and the same is duly met at maturity. Show how the bill should be drawn and accepted, and make the Ledger entries as they should appear in the books of the two firms.—(*Chartered Accountants.*)

3. Jones and Co., of London, consign to Smith & Co., of Melbourne, 50 tons of steel at £12 10s. per ton plus insurance and freight, which cost 15s. per ton, and in due course receive from Smith & Co. an Account Sales dated 31st December, as follows :—

ACCOUNT SALES OF 50 TONS STEEL, EX "ORMUZ,"

Capt. Robinson from London, sold on account of Jones & Co.

December 31st, 19—

SALES.—10 tons Steel @ £16 10s. per ton	£165 – –		
20 „ „ @ £16 „ „	320 – –		
10 „ „ @ £15 10s. „ „	155 – –		
		£640 – –	
CHARGES.—Customs Entry and Stamps .	– 15 –		
Unloading, Weighing, Storing, Rent	15 – –		
Fire Insurance . . .	1 – –		
Commission 5% £640 . .	32 – –		
		£48 15 –	
		£591 5 –	

Stock of Steel on hand, 10 tons,
E. & O. E.

Melbourne, 31st December, 19—
SMITH & Co.

Write up the Consignment Account in detail in Jones & Co.'s books to 31st December, 19—, and show the profit to that date.—(*Chartered Accountants.*)

4. W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows :—W. Lone, ⅔rds ; and T. Stanley, ⅓rd. The following is the Balance Sheet of Lone, Stanley & Co., 31st December :—

W. Lone, Capital Account	£2,000	Cash	£200
T. Stanley . . .	1,800	Sundry Assets . .	27,600
Sundry Creditors . .	24,000		
	£27,800		£27,800

On the 1st January next, they admit M. Maxwell as a partner, on the following terms :—

(*a*) Profits are to be divided as to $\frac{5}{8}$ths to W. Lone, $\frac{2}{8}$ths to T. Stanley, and $\frac{1}{8}$th to M. Maxwell.

(*b*) M. Maxwell to bring in £1,000 as his Capital.

(*c*) A Goodwill Account is to be raised for £1,800, this sum to be credited to the old partners.

(*d*) W. Lone is at liberty to withdraw £400 of his capital on January 1st.

(*e*) M. Maxwell to have a salary of £400 per annum out of profits.

(*f*) Interest to be allowed on partners' Capital Accounts at the rate of 5% per annum. No interest on ordinary Drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of profits (in the case of M. Maxwell the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended the 31st December, before making any allowance for M. Maxwell's salary or for interest on partners' capital amounted to £2,510.

Show the partners' Capital Accounts at 31st December.—(*Lancashire and Cheshire Union.*)

5. A and B, without being in partnership, enter into Joint Ventures outside their respective businesses for the purchase and sale of imported food-stuffs. Each conducts part of the transactions after conference with the other, and they agree to have half-yearly settlements, on the basis of cash transactions bearing interest at 5%.

The following items represent their dealings for the half-year ending 30th June :—

Jan.	2.	B buys on two months' terms, Currants, £400.
,,	3.	A pays Dock Dues on same, £10.
,,	30	A buys for Cash, tinned Salmon, £180.
Feb.	1	B sells Currants and receives Cash £480, less 2½%
,,	2.	B pays for Currants, less one month's Interest at 5% per annum.
Mar.	7.	A sells for Cash, Salmon £100, less 1½% discount.
,,	12.	A sells on Credit, Salmon £40.
,,	17.	A buys Almonds, £200.
April	1.	B buys Figs, £100.
,,	2.	B pays Freight on Figs, £5.
,,	6.	B pays Railway Dues on Salmon, £4.
,,	18.	A sells Almonds, £80, less 2½%.
,,	21.	A sells Almonds, £35.
,,	,,	A receives Cash for Almonds, £78.
May	1.	B sells whole consignment of Figs for Cash, £95.
,,	3.	A sells for Cash balance of Salmon, £30.
,,	15.	A sells for Cash balance of Almonds, £90.

Prepare Accounts showing how matters stand between A and B on 30th June.—(*Incorporated Accountants.*)

6. How would you recommend the organising of a book-keeping system of a manufacturer's business, so that the Personal Account Ledgers could be separately agreed ?—(*Chartered Accountants.*)

7. What is the percentage rate of Gross Profit on :—

(1) The *sale price* of goods purchased for the sum of £1,000, and sold for £1,333 6s. 8d. ?

(2) The *purchase price* of goods bought for £783 6s. and sold for £979 2s. 6d. ?—(*Chartered Accountants.*)

8. Describe the system of book-keeping most suitable to one of the following businesses :—*Manufacturer*, who pays for his materials by Bill at end of each month, pays for all items of the nature of expenses by cheque weekly ; occasionally hands over to his creditor a customer's acceptance. Or *Retailer*, whose sales are almost entirely for cash ; he pays all his accounts at end of following month ; all cash goes through Bank ; he wishes to ascertain in one set of Books the gross results of his trading, separating the goods into three departments.—(*West Riding of Yorkshire.*)

9. From the following particulars compile the accounts for the year ended 31st December, to be submitted to the Annual Meeting of the members of a Golf Club.

Entrance Fees and Subscriptions received on account of last year (these were estimated at £9 9s.)	£10 10 –
Subscriptions received	1,050 – –
Entrance Fees received	73 10 –
Entrance Fees and Subscriptions received on account of next year	52 10 –
Locker Rents received	35 – –
Green Fees received	120
Expenses, including Rent, for current year (of these £800 have been paid)	900 – –
Liabilities of last year, paid this year (these were estimated at £70)	60 – –
Subscriptions owing for current year £21, taken as	12 12 –
Stock (House Account)	150 – –
Capital Expenditure, including Lease, last year	1,000 – –
" " this year	200 – –
" " written off	250 – –
Profit on House Account, including Refreshments, after providing for the Staff	50 – –
Cash in hand	124 18 –
Renewals paid	91 3 –
Interest paid	20 – –
Loan on security of Lease	500 – –
Surplus from last Account	494 – –
Fee to Treasurer's Clerk for current year, not paid	20 – –

—(*Chartered Accountants.*)

10. The following was the Balance Sheet of a firm upon dissolution of partnership, " A " retiring, " B " continuing the business. The partners' shares as to Capital and Profits were A, three-fourths ; B, one-fourth.

Capital A	£9,000	Freehold	£12,000
Capital B	3,000	Debtors	3,000
Loan from A	2,000	Cash	1,000
Creditors	1,800	Stock	1,000
Reserve	1,200		
	£17,000		£17,000

A agreed to buy the Freehold for £10,000. The Stock was taken over by B at 10% discount. The debtors realised 86% of their value. The costs of the liquidation exclusive of the above deficiencies were £470. What did each partner receive ? Show Cash Account, Liquidation Account, and Partners' Accounts.—(*Chartered Accountants.*)

11. Explain the difference between a Trading Account and a Profit and Loss Account, and state in which account you would place the following items, giving your reasons :—

Purchases,	Carriage and Freight,	Depreciation,
Debenture Interest,	Allowances,	Bad Debts,
Wages,	Commission,	Advertising,
Sales,	Stocks on hand,	Returns,
Discounts,	Fuel,	Packages,
Directors' Fees.		

—(*Chartered Accountants.*)

12. The Speedy Motor Cab Co., Ltd., was registered with a Nominal Capital of £30,000, divided into 10,000 Ordinary Shares of £1 each, and 20,000 6% Preference Shares of £1 each.

From the following " Trial Balance " prepare Trading and Profit and Loss Accounts for the year ended December 31st, and a Balance Sheet as on that date :—

TRIAL BALANCE.

	Dr.			*Cr.*		
Ordinary Share Capital Account				10,000	–	–
Preference Share do.				18,267	–	–
Calls in arrear on Preference Shares	8	10	–			
Stock in hand (January 1st)	1,305	8	7			
Cash in hand	28	9	3			
Bank Overdraft				603	5	4
Cab Earnings				18,697	19	5
Salaries	1,187	10	3			
Tyres	4,906	3	11			
Insurance	1,521	8	–			
General Expenses	278	9	–			
Plant and Machinery	1,451	9	–			
Fixtures and Fittings	1,126	17	–			
Taxicabs	28,000	–	–			
Debtors and Creditors	89	17	3	710	2	–
Reserve for Renewals (January 1st)				500	–	–
Profit and Loss Account (Balance, Jan. 1st)	748	3	5			
Rent of Taximeters	465	10	–			
Licences	312	8	–			
Petrol (less Payments by Drivers)	874	8	6			
Training Drivers	103	5	4			
Washing and Cleaning Cabs, etc.	2,606	8	2			
Repairs	1,810	12	5			
Rent, Rates, and Taxes	953	8	7			
Lighting	189	5	4			
Directors' Fees	250	–	–			
Preliminary Expenses	458	9	6			
Legal Expenses and Audit Fee	102	5	3			
	48,778	6	9	48,778	6	9

Before preparing the Accounts, the following adjustments are necessary :—

Charge Depreciation on Plant and Machinery, and Fixtures and Fittings, at 10% per annum.

Charge Depreciation on Taxicabs at 5% per annum.
Reserve for Renewals £500.
" Rates owing £18 7s. 6d.
" Insurance paid in advance £170 1s. 6d.
The takings of the cabs on December 30th and 31st amounted to £171 8s. 3d., but were not paid in by the Drivers until January 1st.
Write off one-third of the Preliminary Expenses Account.
The value of the Stock in hand as on December 31st, was agreed at £1,486 10s. 9d.—(*Royal Society of Arts.*)

CHAPTER XIII

(2) JOINT STOCK COMPANIES (*continued*)

HAVING in the previous chapter treated of the constitution and incorporation of companies, of the provisions of the Companies Acts, of the statutory requirements up to and including the allotment of shares, of the kinds of capital, shares, and debentures, of the various methods of issuing shares and debentures, and finally of the elements of joint stock company book-keeping, including the Trading and Profit and Loss Account and Balance Sheet, we propose now, in the present chapter, to deal with matters usually considered somewhat more difficult—matters which will require the student's close and careful attention.

PURCHASE OF A BUSINESS

Vendor, Purchase Price, Going Concern.—In numerous cases a joint stock company is formed for the purpose of acquiring and working an old-established business. The person who sells the business to the company is termed the **vendor**, and the money paid for the business is called the **purchase price**. A company could not pay away to the vendor all the cash it receives for its shares and debentures; it must retain some as working capital. The purchase price is, therefore, generally paid partly in cash and partly in shares. If the prospectus showed that the vendor was taking the purchase price wholly in cash, it would give rise to suspicions on the part of the public; it would look as if the vendor had no faith in his own business, and was glad to get rid of it. In a good business, therefore, it will generally be found that the vendor is himself taking a large number of shares in the company, and this will inspire confidence in the general public. The shares issued to the vendor may be valued either at par or at a premium, according to the agreement made with him. When such shares are allotted to the vendor they may be either fully or partly paid (usually the former). Sometimes the business is taken over by the company as a **going concern**, *i.e.*, exactly as it stands, all the assets including the cash, and all the liabilities, and without any stoppage of business. Sometimes the cash of the old business is not taken over; sometimes the liabilities are not taken over, but left for the vendor himself to discharge. These things, however, are settled by agreement.

Goodwill.—A company usually purchases not only the assets but also the goodwill of the business, that is, the right to the volume of trade connected with the business. In some cases the amount paid for goodwill is stated, in other cases it has to be ascertained. If the company takes over only the assets, then the goodwill will be

the excess of the purchase price over the value of the assets. Thus if the assets amounted to £10,000, and £15,000 was paid for the business assets and goodwill, then £5,000 would denote the value of the goodwill. If the company takes over both assets and liabilities, then the difference between the assets and liabilities will show the capital value of the business. And the excess of the purchase price over the capital value of the business will give the amount paid for goodwill. Thus, if the assets amount to £15,000 and the liabilities to £6,000, then £9,000 would denote the capital value of the business. And if the purchase price of the business is £13,000, then £4,000 would be the amount to debit to a Goodwill Account.

Business Purchase Account.—In journalising the entries referring to the purchase of a business, the procedure is greatly simplified by opening a Business Purchase Account. This account is debited with the purchase price of the business, and the account of the vendor is credited with the same. This has the advantage of fixing the liability to the vendor. All the assets, including the amount for goodwill, are then debited to their respective accounts, and the total credited to the Business Purchase Account. The Business Purchase Account is then debited with the total of the liabilities taken over, and the liabilities are credited to their particular accounts. When these entries are posted, the Business Purchase Account will be found to balance ; and all the assets and liabilities will have been brought on in the books. It is possible, of course, to avoid these *three* entries and to show the transaction by means of *one* Journal entry, namely, by debiting all the assets, including the goodwill, and crediting the liabilities and also the amount due to the vendor. Students, however, often get so confused when they attempt this, that we strongly recommend them, for a time at any rate, to adopt the Business Purchase Account method. Another very good method is to have *one* Journal entry for the asset accounts and *one* for the liability accounts. This is very simple and leaves the vendor's account in credit for the amount due to him.

Formula for Purchase of a Business.—The following detailed steps may prove useful to the student:—

(1) Debit Business Purchase Account and credit Vendor with the agreed purchase price.

(2) Debit each asset, including goodwill, and credit Business Purchase Account with the total.

(3) Debit Business Purchase Account with the total of the liabilities taken over, and credit each separate liability.

(4) Debit Vendor, and credit Share Capital Account and Debentures Account, with the shares and debentures issued to him in part payment of the purchase price of the business.

(5) Debit Application and Allotment Account (or Shareholders and Debenture Holders Account) with the amounts due from

shareholders and debenture holders, and credit Share Capital Account and Debentures Account.

(6) Debit Cash Account with the balance taken over (if any) and the amounts received from shareholders and debenture holders; credit Cash Account with any sums paid to the vendor.

Example.—A Joint Stock Company with a Registered Capital of £150,000, consisting of 75,000 Ordinary Shares of £1 each, and 75,000 6% Preference Shares of £1 each, and also £30,000 Debentures in bonds of £100 each, purchased as a going concern for £100,000 the business of Messrs. Rowell & Co., as per the following particulars :—

BALANCE SHEET.

Liabilities.				*Assets.*			
Bills Payable	5,000	–	–	Cash	3,000	–	–
Sundry Creditors	15,000	–	–	Bills Receivable	1,500	–	–
Capital	70,000	–	–	Book Debts	26,500	–	–
				Freehold Premises	30,000	–	–
				Plant and Machinery	15,000	–	–
				Stock	12,000	–	–
				Furniture and Fixtures	2,000	–	–
	90,000	–	–		90,000	–	–

The purchase price was to be paid thus :—£25,000 in fully-paid Ordinary Shares, £25,000 in fully-paid Preference Shares, £25,000 in Debentures, and the balance in Cash. The remainder of the shares and debentures were offered to the public, and were all subscribed and fully paid up. Make the necessary Journal and Cash Book entries, and show the Company's Balance Sheet. (For Journal entries, see next page.)

Dr. CASH BOOK. *Cr.*

Receipts.	Bank.			Payments.	Bank.		
To Balance	3,000	–	–	By Rowell & Co.	25,000	–	–
„ Ordinary Shareholders	50,000	–	–	„ Balance c/d	83,000	–	–
„ Preference Shareholders	50,000	–	–				
„ Debenture Holders	5,000	–	–				
	108,000	–	–		108,000	–	–
To Balance b/d	83,000	–	–				

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
Nominal and Issued Capital :				Freehold Premises	30,000	–	–
Ordinary Share Capital—				Goodwill	30,000	–	–
75,000 Shares of £1 each	75,000	–	–	Plant and Machinery	15,000	–	–
Preference Share Capital—				Fixtures and Fittings	2,000	–	–
75,000 Shares of £1 each	75,000	–	–	Stock	12,000	–	–
Debentures—				Sundry Debtors	26,500	–	–
300 Bonds of £100 each	30,000	–	–	Bills Receivable	1,500	–	–
Sundry Creditors	15,000	–	–	Cash at Bank	83,000	–	–
Bills Payable	5,000	–	–				
	200,000	–	–		200,000	–	–

JOURNAL.	Dr.			Cr.		
Business Purchase A/c . .	100,000	–	–			
To Vendors . . .				100,000	–	–
Purchase price of business as per Agreement dated						
Cash	3,000	–	–			
Bills Receivable . . .	1,500	–	–			
Sundry Debtors . . .	26,500	–	–			
Freehold Premises . . .	30,000	–	–			
Plant and Machinery . .	15,000	–	–			
Stock	12,000	–	–			
Furniture and Fixtures .	2,000	–	–			
Goodwill	30,000	–	–			
To Business Purchase A/c				120,000	–	–
Sundry Assets acquired as per Agreement dated						
Business Purchase A/c . .	20,000	–	–			
To Bills Payable . . .				5,000	–	–
„ Sundry Creditors . .				15,000	–	–
Sundry liabilities as per Agreement dated						
Rowell & Co. (Vendors) . .	75,000	–	–			
To Ordinary Share Capital (25,000 Shares of £1 each)				25,000	–	–
To Preference Share Capital (25,000 Shares of £1 each)				25,000	–	–
To Debentures . . .				25,000	–	–
(250 Bonds of £100 each) Shares and Debentures issued as fully paid in part payment of the purchase price, as per Agreement dated						
Ordinary Shareholders . .	50,000	–	–			
To Ordinary Share Capital				50,000	–	–
50,000 Shares of £1 each.						
Preference Shareholders .	50,000	–	–			
To Preference Share Capital				50,000	–	–
50,000 Shares of £1 each.						
Debenture Holders. . .	5,000	–	–			
To Debentures . . .				5,000	–	–
50 Bonds of £100 each.						

NOMINAL CAPITAL SHOWN IN THE BOOKS

Special Procedure of Certain Companies.—In the Colonies, particularly Australia and New Zealand, and also with some British companies, mostly Scotch, the practice obtains of opening accounts in the Ledger to record not only the Issued and Called-up capital, but also the Nominal, Unissued, and Uncalled capital as well. English criticism takes the line that such a method is a needless elaboration, and also a violation of principle, in that it turns the double entry books into statistical records.

Example.—A Limited Company was registered with a Nominal Capital of £150,000 in shares of £1 each. Forty thousand of these shares were issued to the vendor as fully paid in part payment of the purchase price of the business. The public subscribed 60,000 shares, payable 2s. 6d. per share on application, 2s. 6d. per share on allotment, and 5s. per share on a first call. All the money was duly received except the call of 5s. on 100 shares. Record the whole of these facts in the company's books, and show how the Capital would appear on the Balance Sheet.

JOURNAL.	*Dr.*			*Cr.*		
Unallotted Shares A/c . . . To Nominal Capital A/c . 150,000 Shares of £1 each, as per Memorandum of Association.	150,000	–	–	150,000	–	–
Vendors . . . . . . To Unallotted Shares A/c . 40,000 Shares of £1 each, issued as fully paid, as per Agreement dated.	40,000	–	–	40,000	–	–
Uncalled Capital A/c . . To Unallotted Shares A/c . 60,000 Shares of £1 each subscribed by the public.	60,000	–	–	60,000	–	–
Application A/c . . . To Uncalled Capital A/c . 2s. 6d. per share on 60,000 shares.	7,500	–	–	7,500	–	–
Allotment A/c . . . To Uncalled Capital A/c . 2s. 6d. per share on 60,000 shares.	7,500	–	–	7,500	–	–
First Call A/c . . . To Uncalled Capital A/c . 5s. per share on 60,000 shares.	15,000	–	–	15,000	–	–

LEDGER

Dr. NOMINAL CAPITAL. Cr.

					By Unallotted Shares . .	150,000	–	–

Dr. UNALLOTTED SHARES. Cr.

	To Nominal Capital	150,000	–	–	By Vendors . .	40,000	–	–
					,, Uncalled Capital	60,000	–	–

Dr. UNCALLED CAPITAL. Cr.

	To Unallotted Shares . .	60,000	–	–	By Application A/c	7,500	–	–
					,, Allotment A/c .	7,500	–	–
					,, First Call A/c .	15,000	–	–

Dr. APPLICATION ACCOUNT. Cr.

	To Uncalled Capital	7,500	–	–	By Cash . .	7,500	–	–

Dr. ALLOTMENT ACCOUNT. Cr.

	To Uncalled Capital	7,500	–	–	By Cash . .	7,500	–	–

Dr. FIRST CALL ACCOUNT. Cr.

	To Uncalled Capital	15,000	–	–	By Cash . .	14,975	–	–

BALANCE SHEET

Capital and Liabilities.							
Nominal Capital—							
150,000 Shares of £1 each . .	150,000	–	–				
Less Unallotted Shares—							
50,000 Shares of £1 each . .	50,000	–	–				
Issued Capital	100,000	–	–				
Less Uncalled Capital—							
10s. per share on 60,000 shares .	30,000	–	–				
Called-up Capital	70,000	–	–				
Less Calls in Arrear . . .	25	–	–				
Paid-up Capital				69,975	–	–	

If a company has different kinds of shares, then separate accounts must be opened for each kind, thus :—Unallotted Ordinary Shares, Unallotted Preference Shares, Uncalled Ordinary Capital, Uncalled Preference Capital, etc.

Note.—The balance of the Unallotted Shares Account is deducted from the Nominal Capital in the Balance Sheet.

INTEREST ON CALLS

Interest on Calls in Arrear.—The Articles of Association usually empower the directors to charge interest on calls not paid within the specified time.

Provisions of Table A.—Article 14 of Table A, Companies (Consolidation) Act, 1908, reads as follows :—

> If a sum called in respect of a share is not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of five pounds per cent. per annum from the day appointed for the payment thereof to the time of the actual payment, but the directors shall be at liberty to waive payment of that interest wholly or in part.

The same or similar provisions are usually contained in special Articles.

Entries in the Books.—Where the Share Ledger does not contain any columns for interest, accounts will have to be opened in the General Ledger for the Shareholders concerned. The following Journal entry will be necessary :—

Shareholder	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be taken as a profit to Profit and Loss Account, and the shareholders will appear as Debtors on the Balance Sheet. But where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger itself, being debited to the shareholders concerned from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, *i.e.*, the shareholders' names will not appear. The following Journal entry will be required :—

Outstanding Interest	*Dr.*
To Interest Receivable	*Cr.*

The Interest Receivable will be treated as a profit in the Profit and Loss Account, and the Outstanding Interest will appear as an asset in the Balance Sheet.

Interest on Calls paid in Advance.—The Articles of Association usually give the directors of a company power to allow interest on calls paid in advance.

Provisions of Table A.—Article 17 of Table A, Companies (Consolidation) Act, 1908, reads as follows :—

> The directors may, if they think fit, receive from any member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him ; and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate (not exceeding, without the sanction of the company in general meeting, 6%) as may be agreed upon between the member paying the sum in advance and the directors.

The same or similar provisions are usually contained in special Articles.

Entries in the Books.—Where the Share Ledger is not provided with columns for interest, accounts will be opened in the General Ledger for the Shareholders concerned. The following Journal entry will be required :—

Interest Payable	*Dr.*
To Shareholder	*Cr.*

The Interest Payable will be a loss in the Profit and Loss Account, and the shareholders will appear as Creditors on the Balance Sheet. But where the Share Ledger Account is in two parts, a Cash Account and a Share Account, the interest will be shown in the Share Ledger itself, being credited to the Shareholders from the Interest column in the Call Book. In the General Ledger the interest will be treated impersonally, the following Journal entry being made :—

Interest Payable	*Dr.*
To Outstanding Interest	*Cr.*

The Interest Payable will be transferred to Profit and Loss as a loss, and the Outstanding Interest will be a liability on the Balance Sheet. In many cases, however, interest will be paid on the due date, and only the following Cash Book entry (payments side) will be required.

By Interest on Calls in Advance

This amount will be debited to an account of the same name in the General Ledger, and, at balancing time, will be transferred like other losses to Profit and Loss Account.

FORFEITURE OF SHARES

What Forfeiture means.—We have seen, in the previous chapter, that if a shareholder fails to pay the sums due from him when the directors make a call, such sums are treated as calls in arrear. Should the shareholder not pay the money within a further stipulated time, the directors generally have power conferred on them by the Articles of Association to cancel such shares, after due notice has been given to the shareholder, and to appropriate to the company's own use any money already paid up on them. These shares are then said to be forfeited, and the shareholder ceases to be a member of the company. The articles must be strictly complied with otherwise the forfeiture may not be valid ; and particulars of all forfeited shares must be given in the Annual Return.

Provisions of Table A.—As regards forfeiture of shares the following provisions of Table A, which are typical of most articles of association, should be carefully noted :—

24. If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the directors may, at any time thereafter

during such time as any part of such call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued.

25. The notice shall name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.

26. If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the directors to that effect.

27. A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the directors think fit, and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the directors think fit.

28. A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the company all moneys which, at the date of forfeiture, were presently payable by him to the company in respect of the shares, but his liability shall cease if and when the company receive payment in full of the nominal amount of the shares.

30. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum, which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the amount of the share, or by way of premium, as if the same has been payable by virtue of a call duly made and notified.

Liability of Ex-shareholder.—The ex-shareholder is, strictly speaking, still liable even after forfeiture for the sum owing on the shares. But the amount is, for all practical purposes, a bad debt, and is usually written off. The ex-shareholder's liability ceases, however, so soon as the company receives payment in full for the particular shares forfeited.

Entries Required when Shares are Forfeited.—The full amount called up on the shares has, of course, been credited to Capital Account in the expectation of receiving the money; these sums must now be debited back to the Share Capital Account in order to cancel them. The amount actually paid on the forfeited shares, *i.e.*, on Application, or on Application and Allotment, must be transferred to a "Forfeited Shares Account," or to a "Cash Paid on Forfeited Shares Account." Again, the amounts owing on the shares have been debited to the Allotment Account and to the Call Account when the money was called up; these amounts must now be credited back to the Allotment Account, or Call Account as the case may be, in order to cancel them.

An alternative method also obtains in practice. This procedure is to debit the Share Capital Account with the full amount called up on the forfeited shares, and to credit the same amount to a Forfeited Shares Account. The Forfeited Shares Account is then debited with the amounts owing on the shares, and these amounts are

credited back to the Allotment Account, or Call Account, as the case may be, but this method is not recommended by the editor.

Example.—A Limited Company has an Issued Capital of £60,000 in shares of £1 each, 15s. per share called up. The directors resolve that 160 shares, on which the first and second calls of 5s. per share each had not been paid, should be forfeited. Make the necessary Journal entries and show the effect on the Company's Balance Sheet.

First Method :—

JOURNAL.	Dr.			Cr.		
Share Capital A/c (*full amount called up*)	120	–	–			
To Forfeited Shares A/c (*amount paid*) . . .				40	–	–
„ First Call A/c (*amount due*)				40	–	–
„ Second Call A/c (*amount due*)				40	–	–
160 Shares Nos. . . . . to . . . . . forfeited by order of the Board for non-payment of calls. Resolution No. . . . . dated						

Alternative Method :—

JOURNAL.	Dr.			Cr.		
Share Capital A/c . . .	120	–	–			
To Forfeited Shares A/c . .				120	–	–
160 Shares of £1 each, 15s. called up, forfeited, as per Resolution dated						
Forfeited Shares A/c . . .	80	–	–			
To First Call A/c . . .				40	–	–
„ Second Call A/c . .				40	–	–
Amount of unpaid calls written back.						

Both Methods :—

BALANCE SHEET

Capital and Liabilities.						
Issued Capital—						
60,000 Shs. of £1 ea., 15s. called up	45,000	–	–			
Less 160 „ „ forfeited	120	–	–			
59,840				44,880	–	–
Forfeited Shares A/c . . .				40	–	–

In the Share Ledger a note would be made *in red ink*, in the shareholder's account, stating that the shares were forfeited, and giving the date of the directors' resolution.

If the *Nominal* Capital has been entered in the books, the following Journal entry will be required :—

JOURNAL.	Dr.			Cr.		
Unallotted Shares A/c . .	160	–	–			
To Uncalled Capital A/c . .				40	–	–
,, Forfeited Shares A/c . .				40	–	–
,, First Call A/c . . .				40	–	–
,, Second Call A/c . . .				40	–	–
160 shares Nos. . . . . to . . . . . forfeited for non-payment of calls, as per Resolution No. . . . . dated						

What is Done with the Cash received on Forfeited Shares.—The money received on forfeited shares is, as we have seen, placed to the credit of a Forfeited Shares Account. This money is, of course, a profit to the company, but it is a capital profit, and hence is not taken to Profit and Loss Account. It is suggested that the money may be treated as divisible profit, but such procedure is unusual, and is condemned by the great majority of accountants. The amount may be transferred to a special Reserve Account, to be used to write down capital expenditure or losses. If it is proposed to re-issue the shares, the amount is left in the Forfeited Shares Account, to be dealt with whenever such re-issue takes place.

RE-ISSUE OF FORFEITED SHARES

Power to Re-issue.—As the forfeiture of shares is not a reduction of capital within the meaning of the Companies Acts, the Articles of Association of a company usually give the directors power to re-issue forfeited shares. Such shares may be issued at par, at a premium, or even at a reduced price. The reduction, however, must not exceed the amount already paid up on the shares, as otherwise this would be tantamount to the issue of shares at a discount, which is illegal.

Treatment of Forfeited Shares Account balance.—Any balance of the Forfeited Shares Account, after the re-issue of the forfeited shares, may be transferred to a special Reserve Account, or even to the Profit and Loss Account unless the Articles forbid it. The latter procedure cannot, however, be recommended, as such profit is not a revenue profit, having never been earned ; and it is not therefore,

in the true sense, a profit available for dividend. By some accountants, the balance left in the Forfeited Shares Account is first shown as a premium on the re-issue of the shares, and then transferred to a special Reserve Account.

Entries on Re-issue.—On re-issue a Journal entry is made, debiting the person to whom the shares have been re-allotted with the amount he has agreed to pay for them, debiting Forfeited Shares Account with the reduction in price (if any), and crediting Share Capital Account with the called-up value of the shares. By some accountants the Forfeited Shares Account is debited with the full amount standing to its credit, thus closing the account; the difference between this amount and the reduction in price allowed to the allottee of the shares is then credited to a Premium on Shares Account. Other accountants prefer to deal with the matter impersonally in the General Ledger, and therefore open a Forfeited Shares Re-issued Account.

Example.—The directors of the aforesaid Company resolved that the previously mentioned shares, namely 160 shares of £1 each, 15s. per share called up, 5s. per share paid up, should be issued to John Smith, credited with 15s. per share paid, for £100. Make the necessary entries in the company's books.

First Method—

JOURNAL.

		Dr.			Cr.		
John Smith (*personal account in General Ledger*) . . .		100	–	–			
Forfeited Shares A/c . . .		20	–	–			
To Share Capital A/c . .					120	–	–
Re-issue of 160 Shares of £1 each, credited with 15s. per Share paid, for £100, as per Resolution No. ..... dated							

Dr. CASH BOOK.

Receipts.	Bank.		
To John Smith	100	–	–

NOTE.—As £120 of Capital (¾ of £160) is being issued for £100, the balance of £20 must be made good out of the Forfeited Shares Account.

Second Method—

JOURNAL.	Dr.			Cr.		
John Smith	100	–	–			
Forfeited Shares A/c . .	40	–	–			
To Share Capital A/c . .				120	–	–
,, Premium on Shares A/c .				20	–	–
Re-issue of 160 Shares of £1 each, credited with 15s. per Share paid, for £100, as per Resolution dated						

Dr. CASH BOOK.

Receipts.	Bank.		
To John Smith	100	–	–

Third Method—

JOURNAL.	Dr.			Cr.		
Forfeited Shares Re-issued A/c .	120	–	–			
To Share Capital A/c . .				120	–	–
Re-issue of 160 Shares of £1 each, 15s. per share credited.						
Forfeited Shares A/c . . .	20	–	–			
To Forfeited Shares Re-issued A/c				20	–	–
Amount transferred to make good reduction in price of shares issued, £120 issued for £100						

Dr. CASH BOOK.

Receipts.	Bank.		
To Forfeited Shares Re-issued A/c	100	–	–

DEBENTURE INTEREST

Definition.—Debenture Interest is the interest payable each year on the money borrowed by the company on debenture bonds. It is usually paid half-yearly, and is subject to deduction of income tax at the current rate for unearned income.

Entries for Debenture Interest.—The interest is debited to a

separate Debenture Interest Account. Entries are made as follows :—

JOURNAL.	Dr.			Cr.		
Debenture Interest . . .	800	–	–			
To Debenture Holders . .				710	–	–
„ Income Tax A/c . .				90	–	–
Half-year's Debenture Interest, less Tax at 4s. 6d. in the £.						

CASH BOOK. *Cr.*

Payments.	Bank.		
By Debenture Holders	710	–	–

Sometimes, however, a Journal entry is not made. A cheque is drawn for the net amount of interest payable, and is entered as follows :—

CASH BOOK. *Cr.*

Payments.	Bank.		
By Debenture Interest *less tax*	710	–	–

The Debenture Interest Account is closed, at balancing time, by transfer to Profit and Loss.

Deduction of Income Tax.—A limited company is empowered by law to deduct income tax at the current rate in the £ from all interest paid to debenture holders. The amount of the tax is not remitted direct to the Revenue Authorities, but is placed to the credit of the Company's Income Tax Account. Later on, before calculating the average profits on which the company pays tax, the amount of the debenture interest will be added to the profits shown in the company's accounts, and thus the Inland Revenue Authorities will recover the tax deducted by the company from its debenture holders.

Debenture Interest Charged in the Appropriation Account.—Some limited companies charge the debenture interest in the Appropriation Account. From an accountant's point of view this is certainly not correct. Such interest is undoubtedly a charge against the profits, and not an appropriation of it.

How the Debenture Interest is Paid.—In large companies a cheque is drawn for the net amount of the interest payable, and posted to

the debit of the Debenture Holders Account, thus closing it. The cheque itself is paid in to the credit of a separate Debenture Interest Account at the company's bank, and a separate Debenture Interest Pass Book is kept. Cheques or warrants are then drawn on this account for each debenture holder's portion, and sent to the debenture holders concerned. When the debenture holders clear their cheques, the amount will be debited by the bank to this particular Debenture Interest Account, and eventually this account will be closed. When the number of debenture holders is not very large a separate Debenture Interest Bank Account may not be opened; the debenture interest cheques or warrants may be drawn on the ordinary Bank Account.

Unclaimed or Unpaid Debenture Interest.—If at balancing time all the debenture holders have not cleared their interest cheques, there will be an unpaid balance of debenture interest. The double entry books themselves will be quite clear. The Debenture Interest Account will have been debited "*To Debenture Holders*" and "*To Income Tax Account,*" and credited "*By Profit and Loss*"; or, alternatively, it will have been debited "*To Cash,*" and credited "*By Profit and Loss*"; in either case, therefore, the Debenture Interest Account will be closed. To avoid making a one-sided entry, the balance of the Debenture Interest Bank Account must consequently be shown on both sides of the Balance Sheet; on the liabilities side as "*Unclaimed (or Unpaid) Debenture Interest,*" and on the assets side as "*Cash at Bank on Debenture Interest Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay this debenture interest is merely an undivided portion of the general "Cash at Bank."

Debenture Interest less Tax.—In exercises and examination papers the student will sometimes find in the Trial Balance an item like the following:—

Debenture Interest *less tax* at 4s. 6d. . . . £620

In the Profit and Loss Account the Debenture Interest must be raised to its proper sum, as the full debenture interest, not part of it, is a proper charge against profits. The amount of the tax must be ascertained and added back to the debenture interest. The amount of the tax must also be deducted from the Rates and Taxes Account, or Income Tax Account, if the company has paid its income tax; if not, it must be shown on the liabilities side of the Balance Sheet as "*Income Tax Account Cr. balance.*" The amount of the tax is found by arithmetical process. The tax is $\frac{54}{240}$ths or $\frac{9}{40}$ths of the gross amount taxable; this is equal to $\frac{54}{186}$ths (240—54) of the net amount taxed. By calculating $\frac{54}{186}$ths or $\frac{9}{31}$sts of £620 we get £180 as the amount

of the tax which has been deducted. This amount must be added back to the Debenture Interest actually paid, thus raising it to its original sum of £800.

DIVIDENDS

What is a Dividend?—A dividend (Latin *dividendum* from *dividere* = to divide) is a share of the profits of a joint stock company, the profits being *divided* among the shareholders. Strictly speaking the term "dividend" applies only to the *total* sum divisible; it is also used, however, to denote the *portion* received by each individual shareholder. Dividends are proposed or recommended by the directors and declared by the company in general meeting, the shareholders having usually to pass a resolution sanctioning the proposed distribution. The dividend then becomes a liability to the shareholders as from the date of its declaration, but does not bear interest against the company.

Interim Dividend.—An interim (Latin *interim* = in the meantime) dividend is a dividend declared before the close of the company's financial period, either out of profits that are accruing, or out of profits brought forward from a previous period.

Provisions of Table A.—The following provisions of Table A, which are typical of most Articles of Association, should be carefully noted:—

95. The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the directors.

96. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the profits of the company.

97. No dividend shall be paid otherwise than out of profits.

98. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends, all dividends shall be declared and paid according to the amounts paid on the shares; but if and so long as nothing is paid up on any of the shares in the company dividends may be declared and paid according to the amounts of the shares. No amount paid on a share in advance of calls shall, while carrying interest, be treated for the purposes of this article as paid on the share.

99. The directors may, before recommending any dividend, set aside out of the profits of the company such sums as they think proper as a reserve or reserves which shall, at the discretion of the directors, be applicable for meeting contingencies, or for equalising dividends, or for any other purpose to which the profits of the company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the company or be invested in such investments (other than shares of the company) as the directors may from time to time think fit.

100. If several persons are registered as joint holders of any share any one of them may give effectual receipts for any dividend payable on the share.

101. Notice of any dividend that may have been declared shall be given in manner hereinafter mentioned to the persons entitled to share therein.

102. No dividend shall bear interest against the company.

Entries for Dividend.—When a dividend is declared on any kind

of shares a separate Dividend Account is opened. Entries are made as follows :—

JOURNAL.

		Dr.			Cr.		
Preference Share Dividend .		1,400	–	–			
To Preference Shareholders .					1085	–	–
,, Income Tax A/c . .					315	–	–
Dividend less tax @ 4s. 6d. in the £.							
Appropriation A/c . . .		1,400	–	–			
To Preference Share Dividend					1,400	–	–
Balance transferred.							

CASH BOOK. Cr.

Payments.	Bank.		
By Preference Shareholders	1085	–	–

Sometimes the entry is made direct to the Appropriation Account thus :—

JOURNAL.

		Dr.			Cr.		
Appropriation A/c . . .		1,400	–	–			
To Preference Share Dividend					1,400	–	–
Dividend on ..... Shares at ..... %							
Preference Share Dividend A/c .		315	–	–			
To Income Tax A/c . .					315	–	–
Tax on £1,400 @ 4s. 6d. in the £							

CASH BOOK. Cr.

Payments.	Bank.		
By Preference Share Dividend A/c	1085	–	–

How the Dividend is Paid.—In large companies a cheque is drawn for the net amount of the dividend (*i.e.*, less tax, if any), and the amount is posted to the debit of the Dividend Account (or Shareholders' Account, as the case may be), thus closing it. The cheque itself is paid in to the credit of a separate Dividend Account at the company's bank, and a separate Dividend Pass Book is kept. Cheques, or dividend warrants, as they are called, are then drawn

on this account for each shareholder's portion, and are sent to the shareholders concerned. When the shareholders clear their dividend warrants, the amounts will be debited by the bank to this particular Dividend Account, and eventually this account will be closed. When the number of shareholders is not very large, a separate Dividend Account may not be opened at the bank; the dividend warrants may be drawn on the ordinary Bank Account.

Deduction of Income Tax.—A limited company is empowered by law to deduct income tax at the current rate or, when the rate has changed, at the average rate over the period in which the profits are earned, from all dividends paid to its shareholders. There is a notice attached to the dividend warrant, stating how much tax has been deducted, and showing how the amount of the dividend cheque has been arrived at. The amount of the tax deducted by the company is placed to the credit of its Income Tax Account, to reduce any debit already there. A limited company is under no obligation to remit to the Revenue Authorities the tax deducted on any particular dividend. The company pays tax on the whole of its profits, not of any particular year, but on the average of the last three years. (The average system may be abolished in 1927.)

Unclaimed or Unpaid Dividends.—If, at balancing time, there is any balance in the Dividend Pass Book, it will arise from the fact that some of the shareholders have not presented their dividend warrants for payment. This balance must be shown as a liability on the company's Balance Sheet; for the company will still be liable to pay the money, at any rate for a period of twenty years, after which time the dividends may be forfeited. The double entry books themselves will be quite clear. For the Dividend Account will have been credited "*By Appropriation Account*," and debited "*To Cash*" and "*To Income Tax Account*"; or, alternatively, it will have been debited "*To Shareholders' Account*" and "*To Income Tax Account*," and credited "*By Appropriation Account.*" In either case, therefore, the Dividend Account will be closed. To avoid making a one-sided entry, the unpaid balance of the dividend must consequently be shown on both sides of the Balance Sheet. On the liabilities side it will appear as "*Unclaimed (or Unpaid) Dividends*"; on the assets side as "*Cash at Bank on Dividend Account.*" Very often, however (especially in exercises and examination papers), there is no separate statement of cash; the money with which to pay the dividend is simply an undivided portion of the general "Cash at Bank."

Dividend "Free of Tax."—In the prospectuses of joint stock companies, a notice sometimes appears to the effect that dividends will be paid *free of tax*. This statement does not mean that such dividends are not taxed; since, as a limited company is taxed on the whole of its profits, it is indirectly taxed on any dividend it pays away. A limited company is not, in any case, *obliged* to deduct

income tax from any ordinary dividend it pays to its shareholders. It *may* do so if it likes. The statement that an ordinary dividend is to be "free of tax" simply means that the shareholder will receive the *gross* dividend instead of the *net;* in other words, that the company and not the shareholder will bear the tax.

It should be noted that "free of tax" dividend is very seldom paid on preference shares, and such a payment would be irregular unless the shares were issued on those terms. If dividends on preference shares not so issued were paid "free of tax," the ordinary shareholders, who are entitled to receive all surplus profits, would be deprived of the amount represented by the tax.

Preference Dividend less Tax.—The Trial Balances of exercises and examination papers sometimes contain an item similar to the following :—

Preference Dividend *less tax* at 4s. 6d. . . £1,550

In the Appropriation Account the amount of the tax should be ascertained and added back again. The amount of the tax must also be deducted from the Taxes Account if the company has paid its income tax ; if not, it should be shown on the liabilities side of the Balance Sheet as "*Income Tax Account Cr. balance.*" The full dividend should be debited in the Appropriation Account, and the amount of the tax written back to the credit of the Taxes Account. The Income Tax Account of a limited company should, generally speaking, show on the debit side the amount of tax payable by the company, and on the credit side the amounts of tax recovered from the shareholders, debenture holders, and others. The tax is $\frac{54}{240}$ths of the gross dividend payable ; which is equal to $\frac{54}{186}$ths of the net dividend paid. And $\frac{54}{186}$ths, or $\frac{9}{31}$sts, of £1,550 gives us £450 as the total tax deducted. This amount should be added back to the dividend to raise it to the full sum of £2,000.

Dividend Equalisation Fund or Reserve.—In prosperous years the profits of a limited company are usually not all divided, but a certain proportion is put aside as a provision for less prosperous times ; that is to say, a portion of the profits is transferred to a Dividend Reserve Account or a Dividend Equalisation Fund. The company is then able to draw upon this fund in order to make good the shortage of profit in a bad year. The surpluses of fat years are thus used to level up the profits of lean years. And this is sound business policy. It is far better for a company to pay a normal dividend every year, than to pay a very large dividend one year and the next year a very small one, or perhaps no dividend at all. The effect of good, regular dividends will be to keep the market price of the shares steady, and to enable the company to obtain the necessary credit, without which its business operations will be seriously restricted. A "Reserve Account" built up out of profits can likewise be drawn upon for this purpose.

Scrip Dividend.—Financial and other companies sometimes take power in their articles to pay free of tax " Scrip " dividends ; that is, to distribute, by way of dividend, shares or debentures in other companies.

A company is obliged, under penalty of £10 for each offence (maximum £100), to issue with the dividend a statement in writing showing the gross dividend, the income tax deducted, and the net amount payable.

Example.—The accounts of the *Excelsior Trading Co., Ltd.*, show a net profit of £20,060 for the year ended 31st December. The directors resolve as follows:—

(1) To pay a dividend of 5 per cent. (less tax at 4s. 6d. in the £) on the Preference Shares (£80,000).

(2) To pay a dividend of 10 per cent., free of tax, on the Ordinary Shares (£100,000).

(3) To transfer £3,000 to the Reserve Fund.

(4) To transfer £2,000 to a Dividend Reserve Fund.

(5) To carry the balance forward.

Make the necessary entries to carry out the above, and show the Ledger accounts affected.

JOURNAL.	Dr.			Cr.		
Profit and Loss A/c . .	20,060	–	–			
To Appropriation A/c .				20,060	–	–
Balance transferred.						
Appropriation A/c . .	4,000	–	–			
To Preference Share Dividend A/c . . .				4,000	–	–
5 % on £80,000.						
Preference Share Dividend A/c.	900	–	–			
To Income Tax A/c .				900	–	–
Tax at 4s. 6d. in the £ on £4,000.						
Appropriation A/c . .	10,000	–	–			
To Ordinary Share Dividend A/c . . .				10,000	–	–
10 % on £100,000.						
Appropriation A/c . .	3,000	–	–			
To Reserve Fund A/c .				3,000	–	–
Amount transferred.						
Appropriation A/c . .	2,000	–	–			
To Dividend Reserve A/c .				2,000	–	–
Amount transferred.						

CASH BOOK. *Cr.*

Payments.	Bank.
By Preference Share Dividend A/c	3,100 – –
„ Ordinary Share Dividend A/c	10,000 – –

LEDGER

Dr. PROFIT AND LOSS ACCOUNT *Cr.*

To Appropriation A/c	20,060	–	–	By Net Profit	20,060	–	–

Dr. APPROPRIATION ACCOUNT. *Cr.*

To Pref. Share Dividend	4,000	–	–	By Profit and Loss A/c	20,060	–	–
„ Ord. Share Dividend	10,000	–	–				
„ Reserve Fund	3,000	–	–				
„ Dividend Reserve	2,000	–	–				
„ Balance c/f	1,060	–	–				
	20,060	–	–		20,060	–	–

Dr. PREFERENCE SHARE DIVIDEND ACCOUNT. *Cr.*

To Income Tax A/c	900	–	–	By Appropriation A/c	4,000	–	–
„ Cash	3,100	–	–				
	4,000	–	–		4,000	–	–

Dr. ORDINARY SHARE DIVIDEND ACCOUNT. *Cr.*

To Cash	10,000	–	–	By Appropriation A/c	10,000	–	–

Dr. RESERVE FUND ACCOUNT. *Cr.*

				By Appropriation A/c	3,000	–	–

Dr. DIVIDEND RESERVE ACCOUNT. *Cr.*

				By Appropriation A/c	2,000	–	–

Dr. INCOME TAX ACCOUNT. *Cr.*

				By Pref. Share Div. A/c	1,200	–	–

PREMIUMS ON SHARES AND DEBENTURES

Nature of these Profits.—Premiums received by a limited Company on the issue of its shares or debentures are *capital* profits, *i.e.*, not profits available for dividend, and are retained in the business as working capital. Unless, however, the Articles of Association expressly forbid it, there seems nothing to prevent a company from taking such profits to its Profit and Loss Account, as divisible profits, although such a practice is strongly condemned by all the leading accountants. The term "capital profits" is used in contradistinction to "revenue profits," which are gains made by trading.

How dealt with.—These premiums are usually transferred to a Capital Reserve Account, and are then available for writing off capital losses, or for writing down the value of fictitious assets, such as Goodwill. The ordinary Reserve Fund is often drawn upon for the purpose of dividends, hence the necessity for putting such profits to a *special* Reserve Account. In the case of a debenture premium, the expenses of issue (if any) are a first charge against it before it is transferred to a Capital Reserve Account. Where the debentures are redeemable, the premium is often transferred to a Debenture Redemption Account, thus forming the nucleus of the fund for repayment.

DISCOUNT ON DEBENTURES

Nature of these Losses.—The discount allowed by a limited company on the issue of its debentures is a *capital* loss. The latter term is used in contradistinction to "revenue loss" which is a loss sustained by trading. In many cases there are other expenses connected with the issue, such as brokers' commission (where the application form bears a broker's stamp), underwriting commission, etc.; the whole is then debited to a special account entitled "Cost of Issue of Debentures."

How dealt with.—Section 90 of the Companies (Consolidation) Act, 1908, enacts that the amount of such commission and discount must be separately stated on the Balance Sheet until the whole is written off. If the debentures are irredeemable, the amount of such expenses should, none the less, be gradually written off like Preliminary Expenses but over a long period. Where the debentures are redeemable, the amount of such expense is generally written off over the period of the debenture loan; *e.g.*, if the debentures are repayable at the end of five years, then one-fifth of the cost of issue, or discount, will be written off each year. Where, however, the debentures are redeemable by annual drawings of a fixed amount, the discount must be written off each year in proportion to the amount of debentures outstanding; so that those years which enjoy

the larger portion of the debentures shall bear the larger portion of the discount. The debentures themselves will be shown on the Balance Sheet at their nominal or face value.

Example 1.—A Limited Company issued £8,000 Debentures at a discount of 5 per cent., repayable at the end of five years. Show the Discount Account in the Ledger for this period.

Dr. DEBENTURE DISCOUNT. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Debentures	400	–	–	1	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–
						„ Balance c/d	320	–	–
		400	–	–			400	–	–
2	To Balance b/d	320	–	–	2	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–
						„ Balance c/d	240	–	–
		320	–	–			320	–	–
3	To Balance b/d	240	–	–	3	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–
						„ Balance c/d	160	–	–
		240	–	–			240	–	–
4	To Balance b/d	160	–	–	4	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–
						„ Balance c/d	80	–	–
		160	–	–			160	–	–
5	To Balance b/d	80	–	–	5	By Profit and Loss ($\frac{1}{5}$ of £400)	80	–	–

Example 2.—A Limited Company issued £8,000 Debentures at a discount of 5 per cent., repayable by annual drawings of £1,600. Show the Discount Account in the Ledger for the period of duration of the debentures.

The Debentures outstanding	1st year	will be	.	£8,000
„ „ „	2nd „	„ „	.	6,400
„ „ „	3rd „	„ „	.	4,800
„ „ „	4th „	„ „	.	3,200
„ „ „	5th „	„ „	.	1,600
				£24,000

Therefore $\frac{80}{240}$ths of the Discount must be written off in the first year, $\frac{64}{240}$ths the second year, and so on. Or, more shortly, the Discount must be written off in the ratio of the years taken backwards. Now $5 + 4 + 3 + 2 + 1 = 15$; and the proportions will therefore be $\frac{5}{15}$ths, $\frac{4}{15}$ths, $\frac{3}{15}$ths, $\frac{2}{15}$ths, and $\frac{1}{15}$th respectively.

Dr. DEBENTURE DISCOUNT. *Cr.*

Year.					Year.				
1	To Debentures	400	–	–	1	By Profit and Loss (⅓ of £400)	133	6	8
						„ Balance c/d	266	13	4
		400	–	–			400	–	–
2	To Balance b/d	266	13	4	2	By Profit and Loss (⅔ of £400)	106	13	4
						„ Balance c/d	160	–	–
		266	13	4			266	13	4
3	To Balance b/d	160	–	–	3	By Profit and Loss (⅕ of £400)	80	–	–
						„ Balance c/d	80	–	–
		160	–	–			160	–	–
4	To Balance b/d	80	–	–	4	By Profit and Loss (⅔ of £400)	53	6	8
						„ Balance c/d	26	13	4
		80	–	–			80	–	–
5	To Balance b/d	26	13	4	5	By Profit and Loss (⅛ of £400)	26	13	4

ARREARS OF DIVIDEND ON CUMULATIVE PREFERENCE SHARES

Treatment in Books and on Balance Sheet.—As has previously been stated, the difference between a cumulative preference share and one that is not cumulative is, that with the latter the dividend is payable only if there are sufficient profits available during the particular year in which the dividend accrued; whereas with the cumulative preference share the dividend, if it cannot be paid out of the current year's profits, becomes a first charge on the subsequent years' profits. The question then arises as to how such arrears of dividend should be treated. Should they be brought into the books as an ordinary liability, or should they be left until there are sufficient profits available to pay them? Some accountants believe in bringing them into the books as an actual liability, and journalise them as follows:—

Arrears of Preference Share Dividend *Dr.*
To Outstanding Preference Dividend *Cr.*

The arrears then appear on the assets side of the Balance Sheet, as a loss carried forward, while the Outstanding Dividend figures on the liabilities side. When there are sufficient profits available to pay them, then the "Arrears of Preference Share Dividend Account" will be closed by transfer to the Appropriation Account, and the payment of the arrears will be debited to the "Outstanding Preference Dividend Account," thus closing it. The great majority of accountants, however, think that no entry should be made in

the books at all; that the liability does not accrue until there are sufficient profits available to pay it. And they therefore treat the arrears not as an actual liability but only as a *contingent* liability; they merely make a note at the foot of the Balance Sheet to the effect that the Preference Share Dividend is so much in arrear.

PRELIMINARY EXPENSES

Nature.—All expenses incidental to the formation, registration, incorporation, flotation, and commencement of business are, in the case of a joint stock company, debited to a special account entitled "Preliminary Expenses." They are also called "Formation Expenses" and "Promotion Expenses." They comprise the following :—

(1) Fees of accountants for investigating the books of the business and giving a certificate of profits; fees of valuers for making professional inspections and reports.

(2) Solicitors' fees for drawing up contracts, prospectus, Memorandum and Articles of Association.

(3) Registration fees, stamp duties on the nominal capital, stamp duties on the Memorandum and Articles of Association, on contracts, and on letters of allotment.

(4) Cost of printing prospectus, application forms, Memorandum and Articles of Association, share certificates, debenture bonds, letters of allotment, letters of regret, call notices, etc.

(5) Cost of advertising, postage of allotment letters, letters of regret, share certificates, notices of call, etc. ; cost of Share Registers, seal, etc.

(6) Commission on placing shares, *i.e.*, for obtaining subscriptions; commission to underwriters; brokerage, *i.e.*, an allowance to brokers for all applications made on forms bearing the brokers' stamps or names.

How Dealt with in the Books.—Where the Preliminary Expenses are not borne by the vendor, the amount will appear in the company's books. It is in *the nature* of Capital Expenditure, and it has been suggested that as a matter *of law* it might be upheld as an Asset permanently. It is, however, the universal practice to write it off against Revenue over a period of years, usually three to five, according to the size of it. In examination work, Preliminary Expenses should not be written off at all, unless specific instructions are given to do so. The balance of the account not written off appears on the assets side of the Balance Sheet until the whole amount has been finally extinguished.

DEBENTURES AS COLLATERAL SECURITY FOR LOAN

Collateral Security.—A collateral security (Latin *collateralis* = by the side of) is a subsidiary or secondary security, that is, a security

in addition to the principal security. A collateral security is not intended to be realised except in the event of the principal security proving insufficient. Some joint stock companies issue debentures as collateral security for a bank overdraft or a bank loan.

Entries in the Books.—The amount of the Debentures so issued is entered on the Balance Sheet short, *i.e.*, not extended into the money columns, and a note is added explaining that the Debentures have been issued as security for a Bank loan or overdraft as the case may be. It is the practice of some accountants, however, to credit the amount of such debentures to the Debentures Account itself, and to debit it to a Debenture Suspense Account, the latter appearing temporarily on the assets side of the Balance Sheet. When the loan has been repaid, or the overdraft extinguished, and the Debentures released, then a Journal entry is passed crediting the Debenture Suspense Account, thus closing it, and debiting the Debentures Account, thus reducing the latter to its original amount.

Example.—A Limited Company has an authorised Debenture issue of £80,000 in bonds of £100 each. £50,000 of such bonds have been issued at par to the public, and the money has been duly received. £10,000 of the remainder has been issued to its bankers as collateral security for a Loan of £8,000. How should these facts be recorded in the company's Balance Sheet ?

First Method.—

BALANCE SHEET

Capital and Liabilities.						
Authorised Debentures—						
800 Bonds of £100 each . .	80,000	–	–			
Issued Debentures—						
500 Bonds of £100 each at par				50,000	–	–
Loan from Bankers . . .				8,000	–	–
(Collaterally secured by issue of £10,000 Debentures.)						

Alternative Method.—

BALANCE SHEET

Capital and Liabilities.				*Property and Assets.*			
Authorised Debentures—				Debenture Suspense A/c	10,000	–	–
800 Bonds of £100 each . . £80,000				(Debentures issued as collateral security for Loan per contra.)			
Issued Debentures—							
600 Bonds of £100 each .	60,000	–	–				
Loan from Bank . .	8,000	–	–				

PROFITS PRIOR TO INCORPORATION

Nature.—A limited Company frequently takes over a business from a date prior to the date of its own incorporation. If the company, and not the vendor, is entitled to any profits earned prior to its incorporation—and this is often the case in modern agreements—such profits are not profits available for dividend. A company cannot legally earn profits before its official existence, and a public company not until it has a certificate entitling it to commence business. Such profits are, therefore, capital profits.

How dealt with.—These profits should be put to a Special or Capital Reserve Account. They should not be transferred to the general or ordinary Reserve Fund, *i.e.*, the one which is formed by accumulations out of Revenue. Profits are often transferred from this Reserve back to the Profit and Loss Account in order to make up the profits of lean years, so that a normal dividend may be paid. If, therefore, capital profits are put to the General Reserve Account, they might inadvertently get paid away in dividend, and the directors would be liable to refund the money. Where the vendor has waived his claim to the profits earned prior to incorporation, he is usually entitled to interest on the purchase money until such time as it is actually paid. Such interest should certainly be a first charge on any profits prior to incorporation. The balance of the profits may then be used to make good any depreciation of the fixed assets originally acquired by the company, or to write down Goodwill. It is not considered correct to use such profits to write off Preliminary Expenses, as this relieves the new Company's profits of a burden which they should equitably bear.

How Ascertained.—Strictly speaking, there should, of course, be an actual stock-taking in order that such profits may be accurately ascertained. But where this cannot without very great inconvenience be done, such profits are ascertained approximately. The first year's trading must be divided into two periods, *before* and *after* incorporation. The profit of the first year is then apportioned either according to *time*, or according to *turnover*; that is, either in the ratio which each period of time bears to the total period of time, or in the ratio which each period's turnover bears to the total turnover for the year. The profits available for distribution will be only such profits as have been earned *subsequent* to the date of incorporation. Of these two methods the apportionment *according to turnover* is considered to yield the fairer result. The apportionment according to time is based on the assumption, wholly unwarranted, that the turnover is constant month by month. This may be so in some businesses, but in many others there are considerable fluctuations in the monthly volume of trade. Another method, however, has recently been advocated, which partakes of both the former methods. This is, to apportion the

gross profit according to turnover, and the *expenses* according to time. It is claimed for this method that it gives the best results of all.

Example 1.—A Joint Stock Company was incorporated on the 1st May to take over a business as a going concern from the 1st January of the same year. The total turnover for the year ending 31st December was £100,000, namely £30,000 for the first period up to 1st May, and £70,000 for the following period. The net profit for the year was £10,080. How should the profits earned prior to incorporation be ascertained?

Apportioning the profits, in the first place, according to the respective periods of time, we get $\frac{4}{12}$ths of £10,080, or £3,360, as the profits earned prior to incorporation; and $\frac{8}{12}$ths of £10,080, or £6,720, as the Company's own net profits to be appropriated or divided among the shareholders in whatever way it chooses.

Apportioning the profits, in the second place, according to the respective turnovers, we have $\frac{30000}{100000}$ or $\frac{3}{10}$ths of £10,080, namely £3,024, as the profits prior to incorporation; and $\frac{70000}{100000}$ or $\frac{7}{10}$ths of £10,080, namely £7,056, as the Company's own net profits available for distribution by way of dividend if the directors so resolve.

Example 2.—A Joint Stock Company was incorporated on 1st May to take over a business as a going concern from the previous 1st January. The total turnover for the year ending 31st December, was £100,000, namely £30,000 for the period to 1st May, and £70,000 for the following period. The gross profit for the year was £25,060. The Expenses for the year amounted to £14,982, which included £750 for Directors' Fees. How should the first year's profit be apportioned?

Gross Profit for the first period = $\frac{30000}{100000}$ of £25,060 = £7,518.
Gross Profit for the second period = $\frac{70000}{100000}$ of £25,060 = £17,542.
The total Net Profit for the year is £25,060 − £14,982 = £10,078.
The profits *prior* to incorporation will be :—

Gross Profit	£7,518
Less Expenses $\frac{4}{12}$ths of £14,232 (£14,982 − £750)	4,744
	£2,774

The profits *subsequent* to incorporation will be :—

Gross Profit		£17,542
Less Expenses $\frac{8}{12}$ths of £14,232	£9,488	
„ Directors' Fees	750	
		10,238
		£7,304

LOSS PRIOR TO INCORPORATION

How Treated.—Where a company takes over a business from a date prior to its own incorporation, and the trading results for this prior period show a loss, such loss must be added to the Goodwill, being in reality an increase of the purchase price. Should there be no account for Goodwill, one would have to be opened and debited with this loss. Alternatively, however, such loss could be put to a special Suspense Account, and be wiped off by capital profits such as premiums on shares or debentures. The objection to this latter method is that the new company's profits would be used to make good a loss which they should not legitimately bear. It is naturally consistent that as a Profit made before the company's incorporation is Capital, a loss may be so treated, but some doubt has been expressed whether the Company should not "err on the safe side," and write off such a loss over a period of years.

INTEREST ON CAPITAL PAID OUT OF CAPITAL

Non-Revenue Earning Period.—During the construction of works or buildings which take a long time to complete, a company is unable to earn any income with which to pay dividends on its shares. In such cases it is now legal for companies to pay interest on the paid-up share capital during this period, called the non-revenue earning period, and to capitalise the interest, *i.e.*, treat it as part of the cost of the works or buildings so constructed. Certain restrictions are imposed, however, as will be seen from the following paragraph.

Provisions of the Companies Act.—Section 91 of the Companies (Consolidation) Act, 1908, enacts as follows :—

Where any shares of a company are issued for the purpose of raising money to defray the expenses of the construction of any works or buildings or the provision of any plant which cannot be made profitable for a lengthened period, the company may pay interest on so much of that share capital as is for the time being paid up for the period and subject to the conditions and restrictions in this section mentioned, and may charge the same to capital as part of the cost of construction of the work or building, or the provision of plant :—

Provided that :—

(1) No such payment shall be made unless the same is authorised by the Articles or by special resolution.

(2) No such payment, whether authorised by the Articles or by special resolution, shall be made without the previous sanction of the Board of Trade.

(3) Before sanctioning any such payment the Board of Trade may at the expense of the company, appoint a person to enquire and report to them as to the circumstances of the case, and may, before making the appointment, require the company to give security for the payment of the costs of the enquiry.

(4) The payment shall be made only for such period as may be determined by the Board of Trade ; and such period shall in no case extend beyond the

close of the half-year next after the half-year during which the works or buildings have been actually completed or the plant provided.

(5) The rate of interest shall in no case exceed 4% per annum or such lower rate as may for the time being be prescribed by Order in Council.

(6) The payment of the interest shall not operate as a reduction of the amount paid up on the shares in respect of which it is paid.

(7) The accounts of the company shall show the share capital on which, and the rate at which, interest has been paid out of capital during the period to which the accounts relate.

(8) Nothing in this section shall affect any company to which the Indian Railways Act, 1894, as amended by any subsequent enactment, applies.

Other Cases of Interest Paid out of Capital.—Parliamentary Companies, which are incorporated under special Acts of Parliament, such as railway, dock, harbour, and canal companies, usually have similar powers conferred on them. It is also legal (*Hinds v. Buenos Ayres Grand National Tramways Co., Ltd.*, 1906) for joint stock companies to capitalise Debenture Interest, or a portion of it, in those cases where the Debentures have been issued for the purpose of raising money to defray the cost of construction of works or buildings, or the provision of plant, which will not be ready for use until a much later period. The Debenture Interest capitalised is added to the value of the Property or Works Account. Interest on Calls in Advance may be paid whether there are profits available or not.

Arguments "for."—The arguments in favour of charging Interest on Capital to Capital are briefly as follows :—

(1) If a company engages with a contractor to erect buildings for it for a certain price, the contractor will include in his price not only the actual cost of construction but also interest on the capital outlay up to date of settlement, and also his customary profit ; and therefore if the company erects the buildings for itself, and the buildings cannot be made productive until they are finished, the company is entitled to charge to capital not merely the actual capital outlay, but also the interest paid on the capital during the period of construction.

(2) That the payment to shareholders of a low rate of interest during the construction of the work is the least expensive method of financing it.

(3) That as interest can be paid out of capital in the case of loans and debentures, it ought also to be payable in the case of shares.

(4) That if interest has not been so charged a false idea is given of the cost of the undertaking. It can scarcely be fairly said that a concern has cost only £50,000 if the £50,000 has been outstanding for a period and interest has, therefore, been lost on it.

Arguments "against."—The counter arguments, *i.e.*, against charging interest on capital to Capital, are the following :—

(1) The law makes a distinction between capital contributed by

shareholders and capital obtained from lenders and debenture holders.

(2) Share capital can only be issued at par, and is returnable, if at all, only in a special statutory manner. Debentures and loans may be issued at a discount, and may be redeemed when convenient.

(3) Interest on loans and debentures is rightly payable out of capital; for the company's capital exists for the purpose of paying its creditors.

(4) Interest on capital during construction of works is not part of the cost of such works, but merely an expense in the obtaining of capital moneys; and should be treated in the same way as commission and brokerage on the placing of a Company's shares, or discount on the issue of a Company's debentures. That is, it should be temporarily capitalised, and written off against Revenue periodically.

PROFITS AVAILABLE FOR DIVIDEND

Article 97 of Table A of the Companies (Consolidation) Act, 1908, says :—

No dividend shall be payable otherwise than out of profits.

The question immediately arises: What are *profits* within the meaning of the Act?

Systems of Ascertaining Profits.—There are now four recognised systems of ascertaining profits. The first two, termed "Single Account System" and "Double Account System" respectively have long been known to accountants. The other two are quite recent systems, and are primarily due to lawyers, but have been legally sanctioned by the Court of Appeal. They are, however, regarded by professional accountants as unsound.

Single Account System.—Under this system a Balance Sheet is drawn up to represent the true financial position of the Company. If the assets side of the Balance Sheet exceeds the liabilities side, that is, if the total of the assets (after proper provision has been made for depreciation) exceeds the total of the paid up capital, liabilities, and all proper reserves, the excess is considered profit. And the theory is, that so long only as the Capital of the Company is kept intact (for the creditors and others concerned) *i.e.*, is represented by tangible assets, this excess may be treated as profit available for dividend. This system has been approved by legal authorities in numerous cases.

In *Lubbock v. The British Bank of South America, Ltd.*, the latter sold its goodwill and property in Brazil at a considerable profit, which it proposed to distribute in dividend. An action was brought by some shareholders to restrain the company. The Court however, held that the profit was really profit on capital and not

part of the capital itself; it was the surplus of the assets side of the Balance Sheet after the paid-up capital and the current liabilities had been deducted; and that the directors, having complied with all the requirements of the Articles of the Company, were justified in distributing the profit by way of dividend.

In *Foster v. The New Trinidad Lake Asphalte Co., Ltd.*, a book debt of 100,000 dollars was taken over by the New Trinidad Co. It was considered practically worthless at the time, and was not even shown on the Balance Sheet. It was subsequently recovered with 27,000 dollars interest. The directors then proposed to treat the whole of this particular sum as profit available for dividend. An injunction was obtained against them. Mr. Justice Byrne's words were :—

When it is said, and said truly, that dividends are not to be paid out of Capital, the word "Capital" means money subscribed pursuant to the Memorandum of Association, or what is represented by that money. Accretions to that capital may be realised and turned into money, which may be divided among the shareholders, as was decided in *Lubbock* v. *British Bank of South America*. . . . . The question of what is profit available for dividend depends upon the result of the whole account fairly taken for the year—Capital as well as Profit and Loss . . . . . and I do not think that a realised accretion to the estimated value of *one* item of the capital assets can be deemed to be profit divisible among the shareholders without reference to the result of the *whole* account fairly taken.

Double Account System.—In the Double Account System the accounts are divided into two parts, Capital Account and Revenue Account. All moneys received from shareholders, stockholders, and debenture holders are entered on the receipts side of the Capital Account, and the assets purchased, acquired, or constructed with this money are shown on the expenditure side of the Capital Account. The Revenue Account shows on the one side the current year's income, and on the other side the current year's expenses in earning it; and the excess of such income over such expenses is considered profit available for dividend.

Lord Justice Buckley in his work on the Companies Acts, writes :—

The language of Table A of 1862, Article 73, was "out of the profits arising from the business of the company." The present Article (No. 94, C.C.A., 1908) is wider. There may be profits arising not from the business, but from other sources. . . . . .

There is nothing in the general law to forbid the distribution in dividend of profit whencesoever arising. Whether it shall be divided or not is for the regulations to determine. . . . . .

The profits of the business are the credit balances of a Profit and Loss Account properly prepared, having regard to the definition of the business in the Memorandum of Association. They are the excess of revenue receipts over expenses properly chargeable to Revenue Account. As to what expenses are properly chargeable to Capital and what to Revenue, it is necessarily impossible to lay down any general rule. In many cases it may be for the shareholders to determine this for themselves, provided the determination be honest and within legal limits. . . . .

For the purpose of ascertaining profit available for dividend, Capital Account and Revenue Account are to be treated as separate accounts. The credit balance of Revenue Account is applicable for dividend. Under some forms of articles appreciation of capital, or what may be called credit balance of Capital Account, may also be applicable for dividend. But if there has been loss on Revenue Account, not compensated by appreciation on Capital Account, there is not under any form of Articles profit available for dividend until that loss has been made good. The Articles may, however, allow declaration and payment of dividend without bringing into Revenue Account, or providing for, loss on Capital Account. . . . . .

Suppose that a Tramway or Railway Company lays its line when materials and labour are both dear, that both subsequently fall, and that the same line could be laid for half the money. . . . . Or suppose that a Company has sunk £250,000 in establishing a newspaper which could not be sold for £10,000, or has sunk £900,000 in investments, and that they have depreciated by £250,000, it has in the like sense in each case sustained a loss. Yet if the company's object was not in these respective cases to traffic in tramways or newspapers or securities, but to own them, and to make a profit by their ownership and working as distinguished from their sale, then the loss is a loss on Capital Account, leaving Profit and Loss Account unaffected, and the credit of Profit and Loss Account may be divided in dividend.

In some cases the distinction here pointed to has been conveniently expressed by the use of the terms "fixed capital" and "circulating capital." . . . . . The appreciation or depreciation of "fixed capital" (property acquired and intended for retention and employment with a view to a profit) need not in every company, but that of "circulating capital" (property acquired or produced with a view to re-sale or sale at a profit) must be the subject of entry in the Profit and Loss Account. . . . . .

The creditors of the Company are entitled to have the Capital Account fairly and properly kept; but they are not entitled to have losses of capital on Capital Account made good out of Revenue. It is no doubt true that, before arriving at Revenue at all, there are payments which must, in the absence of power in the memorandum to invest the Capital in a wasting property, be made good to Capital, on account of the capital wasted or lost in earning the revenue. For instance, in the common case of leaseholds, which are a wasting property, the whole of the rental may not properly be income; in the case of colliery properties, the difference between the price at which the coal is sold and the cost of working and raising it may not all be income; . . . . . in the case of a Tramway Company you may not have arrived at net profit before you have set apart a sum to make good deterioration. But when all proper allowances have thus been made in favour of Capital, the balance is Revenue applicable for payment of dividend.

Third System.—The third system of ascertaining profits is the one approved by the Court of Appeal in *Lee v. Neuchâtel Asphalte Co., Ltd.* An action was brought by the ordinary shareholders to restrain the payment of a dividend, on the ground that the Company had lost part of its capital and had not made it good out of profits before declaring the dividend. The Memorandum and Articles of Association were peculiar. They gave the directors power to invest the capital in a wasting asset (concession for obtaining bituminous rock and mineral products), and expressly exempted them from any obligation to provide for the renewal of any lease or concession or wasting of any asset. The Court held that the excess of the current year's income over the expenses properly

chargeable to revenue could be treated as profit available for dividend, without providing for depreciation of fixed assets.

Fourth System.—The fourth system of ascertaining profits is the one adopted in *Verner v. The General and Commercial Investment Trust, Ltd.*, and approved by the Court of Appeal The Memorandum allowed the company to invest its capital in speculative securities. At the date of the action the company's Balance Sheet showed there was depreciation of investments, when compared with market price, to the extent of £240,000, £75,000 of which appeared to be a total loss. The current year's profits, ignoring this depreciation, were £23,000; that is, excess of actual income over actual expenditure. The directors proposed to pay a dividend out of this surplus. An action was brought by the stockholders to restrain the payment, on the ground that no provision had been made for this £75,000 loss of capital. The action was dismissed, Lord Justice Lindley's judgment being as follows :—

It has been already said that dividends pre-suppose profits of some sort, and this is unquestionably true. But the word "profits" is by no means free from ambiguity. The law is much more accurately expressed by saying that dividends cannot be paid out of capital than by saying that they can only be paid out of profits. The last expression leads to the inference that the capital must always be kept up and be represented by assets which, if sold, would produce it, and this is more than is required by law. Perhaps the shortest way of expressing the distinction which I am endeavouring to explain, is to say that *fixed capital* may be sunk and lost, and yet that the excess of current receipts over current payments may be divided; but that *floating or circulating capital* must be kept up, as otherwise it will enter into and form part of such excess; in which case to divide such excess, without deducting the capital which forms part of it, will be contrary to law.

In *Wilmer v. McNamara & Co., Ltd.*, an action was brought by the ordinary shareholders to restrain the company from paying a dividend, on the ground that loss of capital had not been made good before arriving at profits. Lord Justice Stirling delivered judgment to the following effect :—

The Articles provide that "no dividend shall be payable except out of profits arising out of the business of the company," and appear to contemplate "profits" as the excess of receipts over all expenditure properly attributable to the year. There is nothing in the Articles to show that the capital of the company (or, rather, assets of the value of those acquired by the company at its formation) must be kept up. I am of opinion that the depreciation of Leaseholds and Goodwill is to be treated as a loss of "fixed" capital, and not as a loss of "floating" or "circulating" capital. And having regard to the decisions in *Lee* v. *Neuchâtel Co.* and in *Verner* v. *General Investment Trust* the injunction must be refused.

QUESTIONS ON CHAPTER XIII

A

1. Explain the terms "vendor," "purchase price," "going concern." How is the vendor usually paid?

2. How is Goodwill ascertained when a company takes over (*a*) only assets, (*b*) both assets and liabilities ?
3. What is the object and use of a " Business Purchase Account " ? Submit a formula for the purchase of a business.
4. What companies enter the *Nominal* capital in their books ? Submit *pro formâ* Journal entries in such a case. What objection is raised to this practice ?
5. Can Interest be charged on Calls in Arrear ? If so, what entries are necessary in the books ?
6. Can Interest be paid on Calls in Advance ? If so, what entries will be required in the books ?
7. What is meant by " Forfeiture of shares " ? What is the ex-shareholder's liability for the money owing ?
8. State briefly the provisions of Table A with reference to forfeiture of shares.
9. What entries are required in the books when shares are forfeited ?
10. What happens to the Cash which has actually been received on forfeited shares ? Would it be correct to carry it to the Profit and Loss Account as a divisible profit ?

B

1. Can forfeited shares be re-issued ? If so, at what price ? How should the balance (if any) on Forfeited Shares Account after re-issue be treated ?
2. What entries are necessary in the books when forfeited shares are re-issued ?
3. What is Debenture Interest ? What entries are necessary to record it in the books ?
4. What deduction does a company usually make when paying Debenture Interest ? Should the Interest be debited to Profit and Loss Account or to the Appropriation Account ? Give reasons for your answer.
5. What procedure is adopted in paying Debenture Interest (*a*) in large companies, (*b*) in small companies ?
6. Explain the meaning of " unclaimed " or " unpaid " Debenture Interest. How should it be treated in the Company's Balance Sheet ?
7. How should the item " Debenture Interest *less tax* " be treated in the Profit and Loss Account, and why ?
8. Explain the terms " dividend " " interim dividend." State briefly the provisions of Table A with reference to Dividends.
9. What entries are required in the books when a dividend is declared and paid ?
10. Explain the procedure adopted in paying Dividends (*a*) in large companies, (*b*) in small companies.
11. What deduction does a company usually make when paying Dividends, and how does it deal with the amount so deducted ?

C

1. Explain the meaning of " unclaimed " or " unpaid " Dividends. How should they be treated in the Company's Balance Sheet ?
2. What is meant by the phrase " dividend free of tax " ? What is the effect of such a dividend to the shareholder ? What is a " scrip " dividend ?
3. What is a " Dividend Equalisation Fund " ? Does it serve a useful purpose ?
4. Explain briefly how Premiums on Shares and Debentures are dealt with.
5. What is meant by the terms " capital profits," " capital losses " ?
6. How should Discount on Debentures be dealt with (*a*) when the Debentures are all redeemable at the end of a fixed period, (*b*) when the Debentures

are redeemable by annual drawings of a fixed amount, (*c*) when the Debentures are irredeemable ?

7. State briefly how the Arrears of Cumulative Preference Dividend should be dealt with (*a*) in the books, (*b*) on the Balance Sheet.

8. What are Preliminary Expenses, and what do they usually include ?

9. How should Preliminary Expenses be treated in the company's books ?

10. What is meant by " Debentures as Collateral Security for Loan " ? What entries are necessary in the company's books and Balance Sheet in such cases ?

D

1. Explain the meaning of the phrase " profits prior to incorporation."

2. How should profits prior to incorporation be dealt with ?

3. What methods are there of ascertaining the profits earned prior to incorporation ? What are the advantages of the different ways ?

4. How should a loss prior to incorporation be dealt with ?

5. What necessity is there at times to pay interest on capital out of Capital ?

6. What are the provisions of the Companies (Consolidation) Act, 1908, with reference to the payment of interest out of Capital ?

7. In what other cases can interest on capital be paid out of Capital ? State briefly the arguments " for " and " against."

8. What systems are there of ascertaining profits available for dividend ?

9. Give some account of the Single and Double Account methods of ascertaining profits. Can accretions to Capital be considered as profit available for dividend ?

10. Explain the systems of ascertaining profits which were approved by the Court of Appeal in *Lee* v. *Neuchâtel Asphalte Co., Ltd.*, and in *Verner* v. *The General and Commercial Trust, Ltd.*, respectively.

EXERCISE XIII

1. The business of Bruce Bros. & Co. was registered as a Limited Company with a nominal Capital of £400,000, divided into 4,000 shares of £100 each. 500 of these shares were issued as fully paid in part payment of the purchase price of the business. 3,200 of the remaining shares were allotted to the public, and fully called up. 25 4½% Debentures of £1,000 each were also issued and taken up.

On 31st December, the following accounts remained open in the Company's Books: Share Capital Account, £320,000; Fully Paid Shares Account, £50,000; Land and Buildings, £282,000; Sundry Creditors, £18,485; Investments, £8,450; Cash, £6,200; Preliminary Expenses Account (Balance), £1,250; Goodwill Account, £15,000; Calls in Arrear, £525; Debenture Account, £25,000; Stock Account (31st December), £9,000; Plant Account, £78,580; Sundry Debtors, £28,000; Reserve Fund, £8,000; Profit and Loss Account (undistributed balance), £7,520. Prepare a Balance Sheet as on 31st December. —(*London Chamber of Commerce.*)

2. The Johnstown Iron Manufacturing and Machine Co., Ltd., took over the old-established business of Moore & Co. as at the 1st January. The Company was registered with a Capital of £300,000, in 300 shares of £1,000 each. The amount agreed to be paid to the Vendors was £150,000, payable as to £100,000 in 100 shares fully paid, and £50,000 cash. There were issued to the general public 200 shares upon which a call of £500 per share was made.

Make the opening Journal and Cash Book entries, giving effect to these operations.—(*London Chamber of Commerce.*)

3. Referring to the preceding question, the works were very indifferently managed, and at the 31st December the Trial Balance of the books stood as follows: There was no Stock on hand when the works were taken over, but on the 31st December Stock was carefully taken and amounted to £6,500.

Purchase Amount	£150,000	
Patent Rights	4,000	
Office Furniture and Fixtures	850	
Trade Debtors	3,150	
Yorkshire Bank	15,980	
Calls in Arrear	14,500	
Purchases	8,750	
Salaries and Wages	4,150	
Rent, Rates, Taxes, and Insurance	1,250	
Travelling Expenses	840	
Freight and Carriage	1,740	
General Office Expenses	750	
Fuel and Lighting	460	
Share Capital		£200,000
Trade Creditors		870
Sales		5,550
	£206,420	£206,420

Prepare from the above Trial Balance a Trading and Profit and Loss Account, with the ordinary Balance Sheet, such as would be prepared for a body of shareholders.—(*London Chamber of Commerce.*)

4. W. Brown, a wine and spirit merchant, had on December 31st, the following assets :—

Cash at Bank	£500
Cash in hand	50
Port Wine, 5 pipes at £60	300
Sherry, 5 butts at £50	250
Owing by H. Johnson	50
Bill receivable (J. Smith due January 12th next)	250
Office Furniture	100
	£1,500

His liabilities on the same date were :—

Due to A. Robinson	£90
,, W. Walters	60
Bill payable (A. Robinson due January 6th next)	50
	£200

On January 1st, a company was formed, with a capital of £2,500 in £1 shares, to purchase W. Brown's business ; and it was agreed that the purchase price should be an amount equal to his capital in the business on December 31st last, to be paid as to £500 in cash and the balance in fully paid shares, the company taking over all the assets and liabilities of the business. The remaining shares were issued to the public and were duly subscribed, allotted, and paid up.

You are required to make the necessary entries recording the above.—(*Royal Society of Arts.*)

5. In January last a company was registered with a Capital of £250,000 in 25,000 shares of £10 each. 20,000 shares were applied for and duly issued, £1 per share being paid on application and £2 per share on allotment. A call of £3 per share was made three months after the date of allotment, and a further call of £3 two months after the date of the first call. Of the first call £55,000 was received, and of the second call £47,500. These moneys were all duly paid over to the bankers of the company.

The company purchased the "Glasdale Iron Works" from Messrs. Wilson and Co. for £125,000, inclusive of all Plant, Machinery, Stocks, etc. They received on account of Purchase Money an allotment of £25,000 in fully paid up shares, and the balance was paid to them in Cash.

Make the necessary Journal and Cash Book entries, giving effect to the above transactions, and post the same to Ledger Accounts.—(*London Chamber of Commerce.*)

6. The Weyside Co., Ltd., was formed for the purpose of purchasing the old established business of Richard Blank, and was duly registered with a nominal Capital of £200,000, in 200,000 shares of £1 each. This capital was divided into 100,000 Ordinary Shares of £1 each, and 100,000 6% Preference Shares of £1 each.

The whole of the Preference Shares and 52,000 of the Ordinary Shares were offered for public subscription, payable, in both classes of shares, as follows :—

2s. 6d. per share on application.
2s. 6d. ,, allotment.
5s. ,, January 15th (first call).
5s. ,, February 15th (second call).
The balance as and when required.

The whole of the shares offered to the public were applied for and allotted in due course.

The balance of the Ordinary Share Capital was issued as fully paid to the vendor as part purchase price of his business.

500 Ordinary Shares applied for by *John Smith*, upon which the application money only had been paid, were subsequently forfeited in accordance with the Articles of Association.

Pass the entries necessary to record the above transactions through the books of The Weyside Co., Ltd., and show how they would appear in the Company's Balance Sheet.—(*London Chamber of Commerce.*)

7. The prospectus of Messrs. Black & Tan, Ltd., was publicly advertised on January 21st, with the following loan and share issues. *Debentures*, 1,000 4% Debentures of £100 each ; the whole of which were offered and fully subscribed and paid up. *Preference Shares*, 20,000 6% Preference Shares of £5 each ; the whole of which were offered and fully subscribed and paid up. *Ordinary Shares*, Nominal 30,000 shares of £5 each ; of which 10,000 shares were issued as fully paid to the vendors in part payment of the purchase price of the business. Of the remaining 20,000 shares the public subscribed for 15,000 shares, the whole of which were, in due course, fully paid up, with the exception of the last call of £2 per share on 500 shares, which were subsequently forfeited by resolution of the directors. Pass the necessary entries through the Company's books to record these transactions, and state how they should appear in the Balance Sheet.—(*London Chamber of Commerce.*)

8. Set out below is the Balance Sheet as on December 31st, of Messrs. Black & White, who are equal partners :—

BALANCE SHEET, DECEMBER 31ST

Capital—			Land and Buildings	£22,065
J. Black	£30,000		Machinery and Plant	12,800
W. White	20,000		Stock	10,760
		£50,000	Sundry Debtors	4,250
Sundry Creditors		3,700	Cash at Bank	2,750
			Investments	1,075
		£53,700		£53,700

A limited Company with a nominal Capital of £100,000 in Ordinary Shares of £1 each, was formed to acquire and carry on the business.

The vendors guaranteed the Book Debts, and agreed to pay off the Creditors. The Company took over the whole concern with the exception of the Cash and Investments, the purchase price being agreed at £60,000.

The vendors were paid, as to £50,000 in fully paid Ordinary Shares, and as to the balance in Cash.

The balance of the Share Capital was taken by the public and fully paid up.

Show the entries necessary to close the books of the old firm, and to open those of the new Company.—(*London Chamber of Commerce.*)

9. The Birget Engineering Co., Ltd., purchased certain patents from Short & Sharp, under an agreement dated June 30th, at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully paid £10 Ordinary Shares.

Including the shares allotted as fully paid to the vendors, the Company issued capital to the extent of £75,000, consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment and £5 at the end of three months), and £25,000 in 5% Preference Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of three months).

Under the agreement with Short & Sharp, the patents passed to the Company on July 9th, which date was also the date of allotment.

All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 Calls in arrear on the Preference Shares. All cash was paid direct to the Company's Bankers.

Make the necessary entries in the books of the Company to give effect to the above transactions, and show how they would appear in the Company's first Balance Sheet.—(*London Chamber of Commerce.*)

10. The Timbuctoo Railway Co. issued its prospectus on January 1st, inviting applications for 200,000 shares of £5 each, payable £1 per share on application, £1 on allotment on January 10th, and £3 on March 1st.

In addition, there was an issue of £1,000,000 3% redeemable Debentures, payable as to 5% upon application, and 95% on January 31st. The whole of the issues were applied for and the cash duly received with the exception that, on March 25th, the directors resolved that 10 shares upon which application and allotment money had been paid should be forfeited for non-payment of the call of £3 per share on March 1st.

Give the usual Journal and Cash Book entries for the above transactions. —(*National Union of Teachers.*)

11. A limited Company has a nominal Capital of £250,000, in 25,000 shares of £10 each. Of these, 4,000 shares were issued to the vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2,000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8,000 shares subscribed for by the public there had been paid at the end of the first year :—

On 6,000 shares, the full amount called.
„ 1,250 shares, £4 per share.
„ 500 shares, £3 per share.
„ 250 shares, £2 per share.

The directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal and Cash Book entries recording the capital transactions of the company, and to set out the capital as it should appear in the Company's Balance Sheet at the end of the first year.—(*London Chamber of Commerce.*)

12. On January 1st, the directors of a Company pass a resolution forfeiting 100 Ordinary Shares of £1 each, upon which a deposit of 2s. 6d. per share has been paid but upon which 7s. 6d. due on allotment and a further call of 5s. per share remain unpaid. On the same date they re-issue the shares to James Brown, credited with 15s. per share paid up for £70.

Show in proper form the necessary entries in the financial books of the Company.—(*National Union of Teachers.*)

13. After considering the audited accounts of the company for the year ended December 31st, the directors of the Rayon D'Or Publishing Co., Ltd., resolved as follows :—

(1) To pay the 6% dividend (less tax) due upon the Preference Stock (50,000).

(2) To pay a dividend of 8% (less tax) upon the Ordinary Share Capital (£60,000).

(3) To transfer £1,500 to the Renewals Reserve Account.

(4) To carry forward the balance.

The profits shown by the Profit and Loss Account amounted to £11,400.

Assume the rate of Income Tax payable to be 1s. 2d. in the £. Show the entries necessary to carry out the above resolutions.—(*Royal Society of Arts.*)

14. John Brown's Balance Sheet showed the following assets and liabilities :—

Freehold Premises, £75,000 ; Stock, £50,000 ; Sundry Debtors, £35,000 ; Patent Rights, £10,000 ; Cash at Bank, £3,000 ; Sundry Creditors, £22,000 ; Bills Payable, £3,000.

The Universal Machinery Co. was formed to purchase the business for the sum of £170,000, payable as to £50,000 in Ordinary Shares, £50,000 in Preference Shares, £50,000 in 4% Debentures, and the balance in Cash, the Company agreeing to take over the liabilities and assets of J. Brown with the exception of the Bank balance.

The registered Capital of the Company was £200,000, divided into 100,000 Ordinary Shares of £1 each, and 100,000 Preference Shares of £1 each. The balances of these shares were issued for subscription by the public, payable 5s. per share upon application, 5s. per share upon allotment, and 10s. per share one month after allotment.

The Ordinary Shares were over-subscribed by 2,000 shares, the Preference Shares were fully subscribed and, including the Vendor's, both classes and the Debentures were duly allotted on February 1st. By May 31st all Cash had been received, except the amounts due on Allotment and Call Accounts with respect to 100 Ordinary Shares and 80 Preference Shares. The directors had paid the vendor the cash due to him ; also £2,500 on account of preliminary expenses, and declared forfeited the shares upon which allotment and call money were in arrear.

Give the Journal and Cash Book entries which should appear for the above transactions and the Ledger Account for Forfeited Shares.—(*National Union of Teachers.*)

15. The nominal Capital of the Richmond Co., Ltd., consists of 100,000 shares of £1 each. The whole of these shares were issued and were fully called up in four equal instalments of 5s. each.

On February 12th, after due notice, the directors passed a resolution forfeiting the 1,000 shares held by Mr. W. A. Richardson, the final instalment due upon his holding not having been paid.

On May 1st, the 1,000 shares referred to above were issued, as fully paid, to Captain Hayward who paid £500 for them.

Give the entries necessary to record these transactions in the Company's books.—(*London Chamber of Commerce.*)

16. The Blakewell Manufacturing Co., Ltd., issued debentures to the extent of £10,000 at 5% discount. The underwriting costs, etc., amounted to 2½% on the issue. Show how these transactions would appear in the books of the Company and in the Company's Balance Sheet, assuming that neither the discount on the issue nor the underwriting costs, etc., had been written off on the date on which the Balance Sheet was prepared.—(*London Chamber of Commerce.*)

17. The Golden Hill Co., Ltd., has a balance of £18,000 to the credit of Profit and Loss Account on 31st December last. On 1st February, it was resolved to appropriate the amount as follows :—

£3,600 to Reserve Fund.

Dividend of 10% (*less* Income tax, 1s. in the £) on 10,000 Preference Shares of £5 each fully paid.

Dividend of 15% (free of Income tax) on 10,000 Ordinary Shares of £5 each fully paid, and carry the balance forward.

You are requested to make out (1) Profit and Loss Appropriation Account, (2) Dividend Account, (3) Income Tax Account, and (4) Reserve Fund Account.—(*National Union of Teachers.*)

18. The Alpha Printing Co., Ltd., issued 10,000 6% Cumulative Preference Shares of £1 each in January. Up to and including the year ended December 31st, the Preference dividends were duly paid. Since that date (4 years) the profits have been insufficient, and nothing has therefore been paid to the Preference Shareholders. Does this fact need record in the books or annual accounts of the Company? If so, how would you record the same?—(*Royal Society of Arts.*)

19. A limited Company was formed to take over an old established manufacturing business. The purchase price was fixed, by an agreement dated January 1st, at £60,000 payable as follows :—

£25,000 in £1 Ordinary Shares of the Company as fully paid.

£25,000 in 5% Debentures, repayable in 10 years at 105.

£10,000 in cash, payable on February 1st.

The Company was duly registered with a nominal Capital of £100,000, consisting of 100,000 Ordinary Shares of £1 each. On January 15th, 15,000 Ordinary Shares were issued to the public and fully paid up with the exception of £150 calls in arrear upon the allotment call.

The following is a list of the assets and liabilities taken over by the Company:—

Sundry Creditors		£10,000
Bills Payable		5,000
Sundry Debtors	£20,000	
Less Reserve for Bad Debts	1,500	
		18,500
Stock-in-Trade		10,000
Machinery and Plant		25,000
Loose Tools		4,000
Bills Receivable		2,500
Cash at Bank		5,000

Make the entries necessary for opening the Company's books and the entries required to record the issue of shares to the public, assuming that 10s. per share is payable on application, and 10s. per share on allotment. —(*London Chamber of Commerce.*)

20. The nominal Capital of Messrs. Brownson & Co., Ltd., consists of 8,000 shares of £1 each, and 15s. per share has been called up, all of which have

been issued, but 80 shares were forfeited on the 1st February. On the 31st March, the Ledger Balances were as follows :—

Capital paid up	£5,940	Profit and Loss Account *Cr.*	£100
Bills Payable	1,000	Interim Dividend	750
Sundry Creditors	2,079	Premises Account	2,000
Bad Debts	220	Salaries	1,200
,, Reserve	120	Sundry Debtors	3,172
Cash	95	Directors' Fees	200
Stock (1st April)	2,056	Furniture and Fittings	412
Reserve Account	500	Wages	5,802
Bank *Cr.*	900	Sales	11,568
Horses, Carts, etc.	478	Purchases	1,525
Preliminary Expenses	500	Carriage	250
Discounts *Dr.*	126	Travelling Expenses	607
Bills Receivable	1,488	Rates, &c., for the half-year ended 30th Sept. last	50
Forfeited Shares Account	10		
Plant and Machinery	1,286		

The Stock at the date of abstracting the above balances amounted to £2,456 ; Wages (unpaid), £50 ; Interest on Bank overdraft, £36. Bring up the Bad Debts Reserve Account to 5% on Sundry Debtors. Also provide £60 for Depreciation of Plant and Machinery.

On the 1st April, it was decided to spread the Preliminary Expenses over a period of six years ; the amount originally was £600.

After making the necessary adjustments, prepare Trading and Profit and Loss Accounts and Balance Sheet.—(*National Union of Teachers.*)

21. The Welsh Manufacturing Co., Ltd., closed its books on the 31st December, with the following balances :—

Stocks at 1st January—		Sundry Debtors	£4,300
Materials	£6,420	Sundry Creditors	2,870
Finished Goods	9,400	Plant and Machinery	11,750
Sundries	530	General Expenses	2,007
Materials Purchased	38,000	Premises	10,000
Coal and Coke used	1,460	Share Capital (60,000 shares at £1 each, 12s. called on each share, and all paid)	36,000
Rents, Rates, and Taxes	987		
Sundries purchased (*less* returns)	580	Travelling and Exhibition Expenses	948
Due to the Ystwyth Banking Co.	2,478	Bad Debts	542
Repairs to Machinery	444	Bad Debts Reserve	500
Wages	15,500	Reserve Fund	10,000
Salaries	3,400	Bills Receivable	735
Insurance	335	Bills Payable	940
Sales	56,800	Profit and Loss Account (1st January) *Cr.* balance	2,388
Fittings and Fixtures	650	Dividend paid	1,800
Returns inward	1,740		
Discount Account *Dr.* balance	448		

Stocks on hand 31st December

Materials	£10,743
Finished Goods	19,430
Sundries	340

You are required to draw up a Trial Balance, a Trading and Profit and Loss

Account, and Balance Sheet, as at 31st December, having made the following adjustments :—

Depreciate the Plant and Machinery and Fittings 10% each, and the Premises 2%. Insurance paid in advance £93. Keep the Bad Debt Reserve at £500.

Comment upon the Balance Sheet as to whether you consider the company is in a healthy state, and give suggestions regarding the various items of expenditure, etc. Would you recommend a Dividend ; if so, how much ? —(*Union of Educational Institutes.*)

22. Farndale & MacLeod, Ltd., Wholesale Stationers, Liverpool, have a registered Capital of 75,000 shares of £1 each upon which 15s. per share has been called up. Owing to default by non-payment of calls 500 shares upon which £100 has been received have been forfeited in accordance with the Articles of Association. From the following Trial Balance extracted from the books on the 31st December, prepare Balance Sheet, Trading Account, and Profit and Loss Account.

Share Capital .	£55,875	–	–	Postages and Telegrams . .	£43	– –
Forfeited Share A/c .	100	–	–	Rates, Taxes, etc. .	482	– –
Calls in Arrear .	75	–	–	Office Wages . .	389	– –
Leasehold Premises (1st January) .	30,500	–	–	Advertising . .	58	– –
Plant and Machinery (1st January) .	11,000	–	–	Repairs to Plant and Machinery . .	61	– –
Additions to Plant & Machinery during year (all to be taken as made on the 1st July) .	600	–	–	Profit and Loss Account (1st Jan.) *Dr.*	100	– –
Reserve (1st Jan.) .	2,000	–	–	Discounts Received .	327	– –
Sundry Creditors .	1,250	–	–	,, Allowed .	2,474	15 –
Bad Debts . .	272	–	–	Sundry Debtors .	11,650	– –
Bank Overdraft .	125	–	–	Debentures, 500 at £10 each, bearing interest at 6% per annum . . .	5,000	– –
Cash in hand . .	10	–	–	Debenture Interest half-year to 30th June, paid *less* tax	141	5 –
Office Furniture (1st January) . .	65	–	–	Directors' Fees .	200	– –
Sales . . .	40,700	–	–	Goodwill . .	10,000	– –
Stock (1st January) .	3,560	–	–	Advertising Places, etc., at stations as at 1st January, to be written off over 3 years . .	600	– –
Purchases . .	2 ,049	–	–			
Wages . . .	10,747	–	–			
Salaries . . .	1,020	–	–			
Carriage Inwards .	74	–	–			
,, Outwards .	119	–	–			
Insurance . .	87	–	–			

Reserve £500 for Wages, allow 2½% off Debtors and Creditors for discount. Insurance is prepaid £12. Depreciate Leasehold Premises 1% per annum ; Plant and Machinery 5% per annum ; Office Furniture 5% per annum. Reserve £125 for Bad Debts. Stock on hand on December 31st, £4,174. —(*Lancashire & Cheshire Union.*)

23. The John Smith and Steel Nib Co., Ltd., was registered on and took over the premises of John Smith as from January 1st. John Smith sold his business to the Company upon the following valuation :—

Buildings (on Leasehold premises with 21 years to run from January 1st)	£7,500
Machinery and Plant	11,650
Stock and Materials	3,872
Goodwill	10,000

The Company took over the Book-debts, which John Smith guaranteed, while he discharged the liabilities existing on December 31st last. The Company was registered with a nominal Capital of £80,000 divided into 80,000 shares of £1 each. Of these 25,000 fully paid shares were allotted to the Vendor as part consideration for the sale of the business, the balance being paid to him in cash. 20,000 shares were offered to, subscribed, and fully paid by the public, with the exception of 200 shares, on which 10s. per share had been paid, and which were forfeited during the year by resolution of the board of directors, owing to the non-payment of the final call of 10s. per share. The books were closed on December 31st, and Stock taken as on that date, amounting to £6,760.

You are required to write off one-twentieth of the value of the Buildings (to provide for the expiration of the Lease); 8% of the Machinery and Plant (as Depreciation); one-fourth of the Preliminary Expenses; and 5% from the Book-debts (as provision against Bad and Doubtful Debts): and then to prepare the Company's Trading Account and Profit and Loss Account for the year to December 31st, and Balance Sheet as on that day. The balances of the Ledger Accounts then, in addition to those resulting from the above transactions, were :—

Purchases	£35,720	Office Expenses	£1,006
Rent	76	Directors' Fees	200
Rates and Taxes	211	Sundry Debtors	12,380
Wages	8,241	„ Creditors	4,467
Salaries	917	Preliminary Expenses	400
Manufacturing Expenses	2,163	Bad Debts (of which £187 were in respect of the debts guaranteed by John Smith, and are payable by him)	206
Sales	49,798	Cash at Bank	3,599
Returned Purchases	311	Auditors' Fees	100
Discounts Allowed (of which £239 were allowed on debts, which were guaranteed in full by John Smith, and are payable by him)	1,033	Returned Sales	763
		Discounts Received	561

State what dividend you would recommend to be paid to the shareholders, and what balance of Profit and Loss Account would be carried forward to the next year.—(*Royal Society of Arts.*)

24. The Postford Manufacturing Co., Ltd., was registered in 19—. The nominal Capital of the Company consists of 40,000 5% Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the previous year ended December 31st, on either class of share.

The Company's books were closed and balanced, as on December 31st last, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Account were as follows :—

Purchases	£15,345	Discount (debit balance)	£83
Buildings	24,054	Reserve for Bad and Doubtful Debts (1st January)	250
Fuel	485	Salaries	1,062
Plant and Machinery	5,654	Postages and Telegrams	116
Boiler and Heating Plant	592	Rates and Taxes	239
Repairs	472	Travelling Expenses	317
Loose Tools	1,856	Loan on Mortgage (charged on above premises)	8,500
Office Expenses	362		
Sales	37,950		
Wages	13,671		

Interest and Bank Charges	£402
Directors' Fees . .	300
Stocks on hand (Jan. 1st)	8,990
Sundry Creditors . .	10,960
,, Debtors . .	9,847
Goodwill . . .	4,000
Profit and Loss Account *Cr.* balance (1st Jan.) .	206
Preference Share Capital .	£17,520
Ordinary Share Capital .	8,000
Unpaid Calls . . .	50
Bills Payable . . .	2,100
Bank Overdraft . .	2,721
Cost of New Catalogue .	300
Cash in hand . . .	10

Before preparing the annual accounts the following adjustments are necessary :—

Provision for Bad and Doubtful Debts is to be made at the rate of 5%.

Provide for Depreciation at the following rates :—

Plant and Machinery Account, 10% ; Boiler and Heating Plant Account, 10% ; Loose Tools Account, 20%.

Write off one-third of the cost of New Catalogue and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare a Trading and Profit and Loss Account for the year ended December 31st, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

25. MARTIN HANSON & CO., LTD.

TRIAL BALANCE, 31st December

Preference Shares : 13,500 £1 5% shares fully paid .	£13,500	–	–	Reserve Fund .	£6,100	–	–
Ordinary Shares : 58,000 £1 shares fully paid . .	58,000	–	–	Investments . .	707	–	–
Debenture Stock 4½%	19,500	–	–	Profit and Loss Account (1st Jan.) *Cr.*	6,493	8	6
Freehold . .	23,500	–	–	Stock (1st Jan.) .	8,302	6	2
Fixed Plant . .	4,400	–	–	Purchases . .	17,315	10	7
Loose Tools, etc. .	2,750	–	–	Discount Received .	221	11	3
Furniture . . .	200	–	–	Returns Outwards .	51	10	11
Horses, Carts, etc. .	250	–	–	Sales . . .	48,701	17	2
Patterns and Models	3,200	–	–	Discount Allowed .	1,390	13	11
Goodwill . .	53,293	–	–	Wages . . .	18,658	11	7
Debenture Interest paid to 31st Dec. .	877	10	–	Bad Debt Account *Cr.*	408	1	9
Preference Dividend paid to Dec. 31st .	675	–	–	Coal . . .	1 890	19	1
Loan Interest paid to Dec. 31st .	263	2	10	Insurance . .	168	1	2
Directors' Fees .	250	–	–	Loans to Workmen .	5	12	2
Bank Commission .	26	18	3	Horse-keep . .	735	3	4
Subscriptions . .	29	14	6	New Plant (Loose) .	385	17	9
Bank Interest *Cr.* .	179	17	6	New Buildings .	81	9	9
Debenture Trustees' Fees . . .	26	5	–	New Patterns .	525	5	10
Loans *Cr.* . .	5,530	–	–	Repairs . .	1,594	–	5
Bank . . .	6,593	10	10	Trade Expenses .	635	7	2
				Salaries . . .	1,307	1	6
				Debtors . . .	11,612	8	5
				Creditors . .	3,363	19	10
				Cash	99	16	8
				New Electric Light Installation (to be spread over 3 years)	300	–	–

Stock, December 31st : Goods, £8,605 18s. 9d. ; Horse-keep, £25.

Dividend accrued due on Investments, £150.

Depreciation : Fixed Plant, 5% ; Loose Tools, 7½% ; Patterns, 10% ; Horses and Carts, 20% ; Furniture, 5%. Half Depreciation to be charged on additions during year.

Reserve £600 for Bad Debts and £667 for Discounts on Debts due.

If there is any surplus profit for the year after paying Debenture Interest

and Loan Interest, Preference Dividend and 5% Ordinary Dividend, place 25% of such surplus to a Special Reserve Account.

Prepare Trading and Profit and Loss Account and Balance Sheet, December 31st.—(*West Riding of Yorkshire.*)

26. The following figures are extracted from the books of the Luxan Mining Co., Ltd., at December 31st :—

Stock of Minerals (Jan. 1st)	£1,004	Interim Dividend paid	£3,000
Wages and Labour	6,350	Capital Authorised, 2,000 shares of £100 each	
Salaries	1,500	Capital Subscribed and paid up, 1,500 shares of £100 each	150,000
Office Expenses	358	Sundry Creditors	1,050
Royalties	1,250	Cash at Bank	7,450
Stores on hand (Jan. 1st)	246	Cash in hand	150
Directors' Fees	1,000	Sundry Debtors	5,430
Bad Debts	49	Debentures	50,000
Stores Purchased	1,042	Purchase Account—Mine, Buildings, etc. (Original cost £175,000)	170,625
Rent, Rates and Taxes	1,100	Machinery and Plant, etc. (Original cost £25,000)	23,750
Repairs and Maintenance of Plant and Machinery	365	Investments	1,256
Debenture Interest	2,500		
Transfer Fees	10		
Sales	25,008		
Rents Receivable	314		
Balance of Revenue Account (Jan. 1st)	2,043		

Stock of Minerals at December 31st, was £2,140, and of Stores at same date £204.

Write off as Depreciation of Mine, Buildings, etc., 2½% from the original cost, and as Depreciation of Machinery, Plant, etc., 5% from the original cost.

Prepare (*a*) Trial Balance ; (*b*) Revenue Account, showing gross and net profit, and amount available for further dividend ; (*c*) Balance Sheet at December 31st. Give the Journal entries for the depreciation.—(*Civil Service, 2nd Division Clerks.*)

27. The Lucifer Electrical Co., Ltd., has a nominal Capital of £100,000 : one-half in £1 Ordinary Shares and the remainder in 6% Preference Shares of £1 each. There have been issued 40,000 Ordinary Shares (which have been fully paid up) and 20,000 Preference Shares, upon which 5s. per share has been called up and paid. The directors have also issued £10,000 of 4% Redeemable Debentures, of which, at the date of the previous balancing, £2,000 with interest had been paid off.

At December 31st, the following, among other balances, appeared in the books :—

Wages and Salaries	£1,100	Machinery and Plant	£14,100
Reserve Account	2,500	Purchases	21,000
Undivided Profits	4,000	Office Furniture	100
Stationery	60	Goodwill Account	15,000
Sales	61,500	Bills Receivable	2,537
Discounts Account, *Dr.*	1,260	Carriage	700
Stock, January 1st	15,400	Horses, Carts, etc.	500
Cash in Bank	2,950	Book Debts	18,500
Value of Lease	5,500	Loose Tools	900
Advertising	45	Creditors	11,200
Productive Wages	31,800	Rent, Rates, etc.	320
Stable Expenses	160	Repairs and Replacements	43
Accountancy Fees	105	Travelling Expenses	120

The finished Stock at December 31st amounts to £15,000 and the Stock in process, £2,500.

Of the productive Wages £100 has been expended in addition to Office

Fixtures and Fittings, and £150 in new Tools, and adjustment of these items will be necessary.

You are required to prepare a Trading and Profit and Loss Account and Balance Sheet, after having (1) made provision for one year's unpaid interest on Debentures and Preference Shares, (2) carried 5% of the present value to a Debenture Redemption Account, (3) written 5% off the present value of the Lease, (4) written off an ascertained Bad Debt of £200, and created a Bad Debt Reserve of 2% on the balance of the Debts. You will further provide £1,000 for Directors' Fees, ½% Commission on the sales to be allowed to travellers, and for additional Purchases of £400, none of which are yet paid. Depreciation must be made :—

On Finished Stock, 5% ; on Stock in process, 12½% ; on Machinery and Plant, 7½% ; on Loose Tools, 7½%.—(*Incorporated Accountants.*)

28. The Eldorado Cigarette Co., Ltd., was registered on April 1st, with a nominal Capital of £30,000, divided into 25,000 Ordinary Shares of £1 each, and 500 Preference Shares of £10 each ; 22,179 Ordinary Shares were allotted (upon application), called up and fully paid, with the exception of £32 (" calls in arrear "), while the whole of the Preference Shares were allotted and paid up before March 31st next.

On March 31st, in addition to the above transactions, the following were the Ledger Accounts' balances of the Company. You are required, after making the adjustments stated below, to prepare a Trading Account and a Profit and Loss Account for the year ended March 31st, and a Balance Sheet as on that date. The stock-in-hand as on March 31st, was valued at £16,455

LEDGER ACCOUNTS' BALANCES

Cash in hand	£129	Purchases Returns—	
Rent	620	Sundries	£162
Gas and Electric Light	182	Boxes	47
Rates and Taxes	203	Bad Debts (written off)	247
Licence and Insurance	209	Wages (Manufacturing)	7,517
Trade Expenses	506	Salaries	1,587
Electric Power	63	Carriage	896
Interest and Discount (*Dr.* balance)	3,275	Travellers' Salaries, Commission and Expenses	1,479
Sales—		Printing and Postage	347
Tobacco	25,693	General Expenses	93
Cigarettes	61,460	Plant and Machinery	3,420
Shorts and Sundries	7,565	Fixtures and Fittings	1,160
Sales Returns—		Advertising and Samples	904
Tobacco	427	Profit and Loss Account (Debit balance)	479
Cigarettes	1,036	Legal Expenses	53
Shorts and Sundries	193	Audit Fee	105
Purchases—		Stock	17,532
Tobacco	74,029	Bad Debts Reserve	542
Sundries	2,300	Sundry Creditors	22,970
Boxes	3,053	,, Debtors	24,360
Purchases Returns—		Cash at Bankers	927
Tobacco	1,745		

ADJUSTMENTS

Insurance paid in advance	£49
Rates ,, ,,	32
Owing for Salaries	40
,, Electric Light	34
,, Electric Power	18
Depreciation Plant and Machinery	10%
,, Fixtures and Fittings	7½%

Reserve for Bad and Doubtful Debts, 2½% on Sundry Debtors.—(*Chartered Accountants.*)

REVISION EXERCISE XIII

1. Upon which side of the Ledger would you expect to find the Balances of the following accounts? Give your reasons: Bad Debts, Cash, Goodwill, Reserve Fund.—(*West Riding of Yorkshire.*)

2. What is the difference, as ordinarily understood, between gross profit and net profit? State some of the advantages to be derived from arriving periodically at the gross profit of a business?—(*Chartered Accountants.*)

3. Rule a form of Petty Cash Book which you would recommend for a merchant's or manufacturer's business, where all payments not exceeding £2 are made out of the Petty Cash which is kept by a junior clerk, and explain the method of dealing with it.—(*Chartered Accountants.*)

4. On 2nd November, William Robinson & Co., Ltd., drew a bill on Henry Jones at three months for £500 in respect of goods supplied. On 6th November, the company received the bill from Jones duly accepted, payable at the County Bank, Ltd., and on 5th December discounted the bill with its bankers at 5% per annum. Make the entries in respect of these transactions in the books of the company. In the Company's Balance Sheet at 31st December, how, if at all, will the bill appear?—(*Chartered Accountants.*)

5. Explain, as applied to the Balance Sheet of a Joint Stock Company the following:—

(*a*) Capital Authorised.
(*b*) Calls in Arrear.
(*c*) Mortgage Debentures.
(*d*) Preliminary Expenses.

On which side of the Balance Sheet would they appear?—(*Lancashire and Cheshire Union.*)

6. Explain the difference between:—

(*a*) Debenture Stock.
(*b*) Debentures to Bearer.
(*c*) Debentures to Registered Holder.

—(*Lancashire and Cheshire Union.*)

7. Three doctors, A, B, and C, are in partnership in Kensington. The partnership comes to an end at 31st December, at which date the agreed figures of the Trial Balance are as follows:—

	Dr.	*Cr.*
A. Capital Account at 1st January		£2,500
B. " " "		1,500
C. " " "		1,200
Drawing Account—A. at 31st December	£1,225	
" B. "	634	
" C. "	723	
Book Debts (in North Kensington)	2,682	
" (in South Kensington)	2,087	
Liabilities		316
Furniture and Fixtures	125	
Cash at Bankers	1,500	
Profit and Loss balance (before charging Interest on Capital)		3,460
	£8,976	£8,976

Each partner is to be credited with a year's interest at 5% on his full Capital Account, and the remaining profit is to be divided, one-half to A, one-quarter to B, and one-quarter to C. A retires from practice; B takes over the furniture and the debtors in North Kensington, and assumes the liabilities; and C takes over the South Kensington debtors. Each partner takes a third of the Cash balance, and pays his own costs of coming to a settlement. Make out statements showing what are the respective sums to be received or paid by each partner on the final settlement.—(*Chartered Accountants.*)

8. A. Edwards & Co. sold their business to a Company for the sum of £220,000, to be paid for by 125,000 £1 Ordinary Shares and £95,000 in cash. Their assets consisted of:—

Freehold Land and Buildings, valued at	£28,000
Machinery and Plant, etc., valued at	25,000
Book Debts, certified by the Auditors at	45,000
Stocks and Materials in progress, valued at	140,000
Advertising Plates, etc.	25,000

And their liabilities were:—

Trade Creditors	40,000
Loans on Mortgage	45,000

The Capital of the Company was £250,000, consisting of 125,000 Ordinary Shares of £1 each, and 125,000 6% Preference Shares of £1 each, issued at 21s. a share.

The Preference Shares were subscribed by the public as follows:—

On Application, 1s. per share; on Allotment, 2s. 6d. per share.

On First Call, 10s. per share; on Second Call, 7s. 6d. per share.

Make the Journal entries for the above transactions in the Company's books, and set out the Balance Sheet thereafter.—(*Chartered Accountants.*)

9. A and O, trading in partnership, and sharing profits and losses in the proportions of two-thirds and one-third respectively, sold their business to J. S. and Co. Their Balance Sheet showed as follows:—

Creditors	£3,750	Plant	£2,000
A's Capital	6,000	Fixtures and Furniture	650
O's Capital	4,000	Stock	7,500
		Book Debts	2,500
		Bills Receivable	500
		Cash at Bank	600
	£13,750		£13,750

The purchasers agreed to give £2,000 for Goodwill, but would only take over the Stock at £7,000, and the Plant at £1,700. Make up the Capital Accounts of A and O, carrying out the terms of sale.—(*Chartered Accountants.*)

10. The books of the British Manufacturing Co., Ltd., at the end of its first year's business on December 31st, showed the following balances, the Stock-in-trade at that date amounting to £6,000.

Share Capital	£40,000	Discounts *Dr.*	£200
5% Debenture Stock	10,000	Preliminary Expenses	500
Interest on Debenture Stock paid *less tax*	475	Purchases	49,000
Buildings	20,000	Sales	70,000
Machinery	25,000	Wages	15,000
Office and General Repairs	1,500	Cash in hand	3,525
Directors' Fees	300	Debtors	6,000
		Creditors	1,500

Write off Preliminary Expenses, £500; Depreciation on Buildings, £400; and on Machinery, £1,000. Prepare a Trading and Profit and Loss Account for the year ended 31st December.—(*Chartered Accountants.*)

11. A company made an issue of £100,000 Debenture Stock, secured by trust deed on all the fixed and floating Assets of the company. Of this amount £50,000 was subscribed at a premium of £2 per cent., £30,000 was subscribed at par, and £20,000 was issued to the Company's bankers by way of collateral security for a loan of £15,000. Give the entries which should appear in the Company's Balance Sheet to record these transactions.—(*Chartered Accountants.*)

12. In the books of the Isle of Wight Tube Co., Ltd., you find that the shareholders have been paid £4,000 during the current year, representing interest on their holdings at the rate of 5%. A similar sum has been debited to the Construction Account as "Interest paid during Construction of Works." Under what circumstances, if any, is this a proper proceeding? Supposing the line to be completed by the following 31st December, and similar transactions to take place during this year, would your answer be affected in any way?—(*Chartered Accountants.*)

13. Premiums on shares of a company having been carried to a Reserve Fund, a portion in a bad year's trading is transferred to Profit and Loss Account in order to pay its Preference Dividend. Would you see any objection to this course?—(*Chartered Accountants.*)

14. A Limited Company was formed in October to acquire two private concerns as on the previous 30th June, adopting their trading from that date. The purchases were completed, and trading by the company commenced on 1st November. It was decided to keep the accounts of the two businesses separate until 30th June. The net profits at 30th June were found to be £2,100 and £3,600 respectively for the year. You are asked to advise the directors as to the amount of dividend they are justified, apart from financial considerations, in paying on the Company's total Capital of £50,000 in Ordinary Shares. What points for consideration would this involve?—(*Chartered Accountants.*)

15. Perry & Knowles, Ltd., are Brewers. At 31st December, after the year's working, their Trial Balance stood as follows:—

Licensed and other Property	£526,672	18	4	Trade Defence Fund Contribution, 1st Jan. (half to be written off)	75	–	–
Ordinary Share Capital	250,000	–	–	Contractors, on a/c of Capital Alterations to Property	1,407	16	11
6% Preference share Capital (nominal £250,000)	249,610	–	–	Commissions	234	16	–
Calls paid on Forfeited Shares	28	–	–	Discounts	314	4	2
Goodwill Account	22,377	18	4	Reserve Fund	10,000	–	–
Formation Expenses	4,305	12	6	Ordinary Share Dividend (Interim, July 23rd)	3,750	–	–
Premiums on, and alterations to, Leases	16,111	19	4	Investments	9,611	18	4
Wages	3,040	8	2	Reserve for Loss on Investments	800	–	–
Brewing Materials	30,244	6	4	Reserve for Doubtful Debts	200	–	–
Mortgages on Licensed Property	3,850	–	–				

4½% Debenture Stock (Interest payable Jan. 1st and July 1st) .	£100,000	–	–
Sundry Creditors .	6,325	4	7
Sundry Debtors .	28,714	12	1
Preference Share Dividends . .	14,227	15	4
Plant and Machinery . . .	7,104	2	9
Barrels . .	3,106	8	10
Horses and Drays .	2,114	12	2
Compensation Charges under the Licensing Act (half to be capitalised) . .	874	10	–
Cash in hand. .	34	3	11
Cash in Bank .	3,797	8	9
Interest on Debenture Stock .	2,137	10	–

Railway Claims written off .	£12	7	–
Income Tax . .	1,083	4	8
Directors' Fees .	500	–	–
Furniture and Fittings . .	207	6	4
Amounts received on account of debts written off	112	16	8
General Trade Expenses . . .	8,214	6	4
Profit and Loss Account (Jan. 1st) *Cr.* . . .	16,814	12	1
Sales, *less* Returns .	49,743	2	11
Rent *Cr.* . .	5,614	13	–
Beer Duty paid, *less* amount charged out . . .	2,823	2	8

The Stocks amounted to—

Brewing Materials . .	£7,973	2	4
Sundries	614	12	3

Carry forward £150 as unexpired Rates.

Write 15% off Barrels; 9% off Horses and Drays; 7½% off Plant and Machinery; 5% off Furniture and Fittings.

Prepare Profit and Loss Account and Balance Sheet.—(*Lancashire and Cheshire Union.*)

CHAPTER XIV

(3) JOINT STOCK COMPANIES (*continued*)

STATUTORY AND STATISTICAL BOOKS

Books which a Joint Stock Company is Compelled by Law to Keep.—The statutory books and documents as per the provisions of the Companies (Consolidation) Act, 1908, are as follows :—

(1) Register of Members (Share Ledger).
(2) Register of Directors and Managers.
(3) Register of Mortgages and Charges.
(4) Minute Book.
(5) Annual List of Members, Summary of Capital and Shares, and Statement in form of Balance Sheet.

Statistical Books kept by a Joint Stock Company.—As mentioned on page 5, Statistical Books are those in which are entered the numerous details connected with the business operations ; details that cannot conveniently be recorded in the financial books. Such books are therefore kept in addition to and independent of the ordinary double entry books. The statistical books generally employed are as follows :—

(1) Application and Allotment Books.
(2) Call Books.
(3) Share Certificate Books.
(4) Registers of Transfers.
(5) Debenture Interest Book.
(6) Dividend Books.
(7) Seal Register.
(8) Register of Probates.
(9) Directors' Attendance Book.
(10) Agenda Book.
(11) Register of Debenture Holders.

APPLICATION AND ALLOTMENTS BOOK

Nature and Use.—This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns to record the names, addresses, and occupations of all applicants for shares, the number of shares applied for and the amount deposited with such applications. Provision is also made by means of additional columns to record particulars of allotments, viz., the number of shares actually allotted and their distinctive numbers, the total amount due on application and allotment on the shares so allotted, the balance due on allotment and the amounts subsequently received

thereon. Separate Application and Allotment Books are kept for each class of shares, Ordinary, Preference, Deferred, etc. The Application and Allotment Book is added, and the totals agreed with the amounts in the financial books, viz., Journal and Cash Book.

In some cases extra columns are provided to record subsequent Calls and their payment, and also any calls paid in advance. The inclusion of too much detail, however, tends to make the book of a very inconvenient size. Further, if the securities are much sought after, the shares change hands very quickly; and consequently the original allottees may not be the persons liable for the amount of calls. Particulars concerning calls are, therefore, best dealt with in a separate Call Book.

Treatment of Applications.—A printed application form is issued with the prospectus, and applicants have merely to fill in the required particulars as to name, address, number of shares, etc., and send the same, together with remittance to the Company's bankers. The Bank fills in the receipts and forwards them to the applicants. Then the particulars are entered in a special Bank Pass Book for the company. Separate pass books are kept for different classes of shares, Preference, Ordinary, etc., the totals being ultimately transferred to the Company's general Bank Account.

The application letters and the pass books are obtained daily from the Company's bankers. The applications are numbered and dated, in large companies by means of a special hand machine or "numerator," and then entered in numerical order in the Application and Allotments Book. In some cases, however, the applications are sorted into alphabetical order and entered on loose sheets, each capable of taking 20 to 25 names, and separate sheets are used for each letter of the alphabet. Afterwards the whole of the sheets are bound together in book form. This facilitates any subsequent reference that may be necessary. Where the shares are much in demand, speculators often put in different applications on different dates, and it is not unusual for them to succeed in obtaining an allotment on each, as, with a very large number of applicants, the fact of double and treble applications from one and the same person frequently passes unnoticed, unless the applications have been arranged in strict alphabetical rotation. In small companies a ready-bound and printed book obtainable from retail law stationers will no doubt suffice.

When the lists are closed and it is found that the minimum subscription has been received, the directors proceed to allotment. Applications bearing the initials of any director are set apart for special consideration. Particulars of all allotments will be entered in the Directors' Minute Book, and the resolutions passed will carefully set out the allottees and the numbers of their shares (probably by a reference to the Allotment Sheets). The directors

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

ISSUE OF 30,000 PREFERENCE SHARES OF £1 EACH AT PAR.

FORM OF APPLICATION.

To the Directors of the
WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

Gentlemen,

Having paid to your Bankers the sum of £_____, being a deposit of 5/- per share on_____Preference shares of £1 each, I agree to take up that number of the said shares, or any smaller number that you may allot to me, upon the terms of the Prospectus dated 14th December, 19—, and the Memorandum and Articles of Association, and I authorise you to place my name on the Register of Members as the registered holder of the said Preference Shares, and I agree to pay the amount due on Allotment and further instalments as and when the same become due.

*Signature*_____

*Name in full*_____
(State whether "Mr.," "Mrs.," or "Miss," and title, if any.)

*Address in full*_____

_____

_____

*Occupation*_____

*Date*_____19__

This form should be filled up and forwarded ENTIRE, together with the deposit of 5/- per share on the number of Shares applied for, to the Company's Bankers, THE METRO BANK, LIMITED, ANNON STREET, LONDON, S.W.

A separate Cheque must accompany each application.

. . . . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

BANKERS' RECEIPT.

*No.*_____

RECEIVED this_____day of_____,19__
from _____
the sum of _____
for the credit of the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED, being a deposit of 5/- per share on _____Preference Shares of £1 each in the above-named Company.

For THE METRO BANK, LIMITED,

£ : : _____ *Stamp.* _____

Cashier.

This Receipt, when returned by the bankers, must be preserved and exchanged in due course for share Certificate.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

LETTER OF ALLOTMENT.

£5 or over, 6d. Stamp, under £5, 1d.

*No.*_____ *Registered Office,*

_____19__

Sir or Madam,

In accordance with your application for Shares in the above Company, I beg to inform you that the Directors have allotted you _____Preference Shares of £1 each.

The amount payable on application and allotment in respect of the said shares is £ : :

You have paid on application £ : :

Leaving a balance due from you of £ : :

which sum must be paid to the Company's Bankers, THE METRO BANK, LIMITED, Annon Street, London, S.W., on or before the _____instant.

Yours faithfully,

*To*_____

_____ _____

_____ *Secretary.*

This form must be forwarded ENTIRE, together with remittance to the Company's Bankers.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

BANKERS' RECEIPT.

Received this_____day of_____, 19__ from _____ the sum of _____ being_____per Share payable on allotment of_____Preference Shares of £_____each in the above Company.

For THE METRO BANK, LIMITED

_____ *Stamp.* _____

£ : . *Cashier*

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for Share Certificate.

usually initial the Application and Allotments Book at the various stages of allotment. The particulars are entered up in the Application and Allotments Book, and allotment letters, giving particulars of the shares allotted and requesting payment of the amount due on such shares, are sent by the secretary to the allottees as soon as possible. Applications are merely offers of acceptance and can be withdrawn, if desired, any time before allotment; but the posting of the letter of allotment completes the contract and makes it binding on the allottee. Allotment letters, however, do not specify the distinctive numbers of the shares.

Numbering of Shares.—Each share must by law have a distinctive number. Different numbers are usually assigned to different classes of shares, in order to guard against mistakes being made by confusing one kind of share with another. Thus supposing a company to have 50,000 ordinary shares, 50,000 preference shares, and 20,000 deferred shares, the ordinary shares would be numbered from 1 to 50,000, the preference shares from 50,001 to 100,000, and the deferred shares from 100,001 to 120,000.

Money Returned to Applicants.—Columns are provided in the Application and Allotments Book to show any money returned to applicants. The reason for such return is either because their applications have not been accepted, or because they have applied for more shares than have been allotted to them. In the latter case, the excess paid on application is applied in reduction of the amount due on allotment; but, in some cases, such excess is more than is required on application and allotment together, and the balance not required is consequently refunded to the shareholders concerned. Letters of Regret, together with cheque and printed form of receipt annexed, are forwarded to those applicants to whom no allotment is made.

Shares Allotted to Vendor as Fully or Partly Paid up.—Besides being issued to the public for cash, shares may legally be issued as fully or partly paid up in return for other kinds of valuable consideration, *e.g.*, property, and also for personal services rendered.

By section 88 of the Companies (Consolidation) Act, 1908, whenever a company limited by shares makes any allotment of its shares it must within one month thereafter file with the registrar of joint stock companies a return of the allotments, and, in the case of shares allotted as fully or partly paid up, a contract in writing constituting the title of the allottee to the allotment.

Letter of Renunciation.—In the case of an allotment to existing shareholders of further shares in a successful company, a power of renunciation in favour of nominees is usually given. The renunciation must be in writing and be signed by the shareholder and his nominee. The latter must agree to accept such shares and to pay any amount due thereon, and must also request to be entered in the

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

LETTER OF REGRET.

*No.*_____ *Registered Office,*

_____19__

Sir or Madam,

With reference to your application for Shares in the above Company, I beg to inform you that owing to the over-subscription of same, the Directors regret they are unable to make you any allotment.

I enclose herewith a cheque for £ : : , being the amount deposited by you on application for the said shares, and shall be obliged if you will kindly sign and return the Receipt at the foot of this form.

Yours faithfully,

To _____

_____ _____

_____ *Secretary.*

_____

. . . . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

RECEIPT.

*No.*_____

*Date*_____19__

RECEIVED of the above-named Company the sum of_____ _____being refund of amount paid on application for_____Preference Shares in the above Company not allotted.

*Signature*_____ *Stamp.* _____

£ : :

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

LETTER OF RENUNCIATION.

Stamp.

To the Directors of
THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby renounce my right to the allotment of_____ shares of £_____ each in the above Company, and request you to allot the said shares to my nominee:

Name _____

*Address*_____

_____

Occupation _____

(*Signed*) _____

Dated this_____day of_____19___

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917).

LETTER OF ACCEPTANCE.

To the Directors of
THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

I hereby agree to accept the_____shares of £____ each in the above Company renounced by..... in my favour. I undertake to pay the calls which may be made thereon. I also hereby request you to enter my name in the Register of Members in respect of the said shares.

Dated this_____day of_____19____

Signature _____

Address _____

_____

*Occupation*_____

Register of Members. The stamp duty on a letter of renunciation is the same as that required on a letter of allotment, namely, 1d. if the nominal value is less than £5, and 6d. if it is £5 and over, and an adhesive postage stamp may be used.

If all the shares are in the first place allotted to the vendor, and then transfers are made out and registered in the names of his nominees, each transfer would be subject to an *ad valorem* stamp duty of 20s. per cent. And even in the case of a " nominal " consideration, a fixed stamp duty of 10s. per transfer is payable. Obviously, therefore, the execution of letters of renunciation with a maximum duty of 6d. per letter is a much more economical arrangement.

Shareholders' Cash Book.—This is a subsidiary Cash Book used for the purpose of recording details of all money received from shareholders. The totals of this book are transferred eventually to the General Cash Book. The company's bankers keep separate pass books for the receipts on each class of shares. These pass books are obtained from the bank daily, and particulars entered up therefrom into this subsidiary Cash Book, and posted thence to the credit of the individual shareholders' accounts in the Share Ledger.

Some accountants, however, consider these subsidiary cash books unnecessary at this stage, and prefer to keep all the detail in the Application and Allotment Book itself, introducing the Shareholders' Cash Book only when calls are made.

In small companies it will no doubt be sufficient to record the details in an inner column in the General Cash Book itself, extending only the daily totals into the Bank column.

In addition to the ruling shown in the worked examples, the following ruling is also met with :—

SHAREHOLDERS' CASH BOOK

Date.	Name.	Share Ledger Folio.	Amounts Received.			Totals transferred to General Cash Book.		

Example 1.—The Waldron Manufacturing and Trading Co., Ltd., was registered with a capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 6% Preference Shares of £1 each. The objects of the Company were *inter alia* to acquire the goodwill and assets of the business of Frank T. Waldron. The purchase price was to be paid as to £10,000 in Cash, and as to £20,000 in fully paid Ordinary Shares of the Company, allotted

either to the vendor or to his nominees. Ten thousand of the Ordinary Shares were offered on January 1st for public subscription, payable 2s. 6d. per share on application, 7s. 6d. per share on allotment, and the balance in calls not exceeding 5s. per share.

Applications were received, and allotments made, as under :—

		No. of Shares applied for.	No. of Shares allotted.
Jan. 2.	Matthew B. Barker, Solicitor, 71 Lime Street, Barnes (including 1 share as signatory)	2,500	2,000
3.	Edward Clarke, Solicitors' Clerk, 120 Mare Street, Hackney, London, N.E. (signatory)	1	1
4.	John F. Dalton, H.M.C.S., 194 Mildmay Park, London, N. (signatory)	1	1
„	Fred Evans, Solicitors' Clerk, 96 Rood Lane, Brixton, London, S.W. (signatory)	1	1
6.	Isaac L. Mensper, Surveyor, 25 Leyton Street, Boro, London, S.E. (signatory)	1	1
„	Ernest O. Prince, Accountant, 12 Temple Chambers, Holborn, London, E.C. (signatory)	1	1
7.	Thomas P. Retrop, Solicitor, 2 Lucas Street, Bexley (including 1 share as signatory)	3,000	2,495
„	Arthur Holdfast, Cotton Merchant, 726 Lime Street, Liverpool	500	nil
8.	James F. Longley, Gentleman, 6 Park Drive, Bromfield	10,000	5,500
„	Mrs. Ruth Oliver, Widow, Halstead Park, Framley	500	nil

Allotments were made on January 15th in order of application, and the shares numbered from 1 upwards. No allotments were made to

21 APPLICATION AND ALLOTMENTS

No. of Application.	Name.	Address.	Occupation.	No. of Shares applied for.	Amount paid on Application.	No. of Shares Allotted.
1	*Barker, Matthew B.*	*71 Lime Street, Barnes, S.W.*	*Solicitor*	2,500	£312 10 —	2,000
2	*Clarke, Edward*	*120 Mare Street, Hackney, N.E.*	*Solicitor's Clerk*	1	2 6	1
3	*Dalton, John F.*	*194 Mildmay Park, N.*	*H.M.C.S.*	1	2 6	1
4	*Evans, Fred*	*96 Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*	1	2 6	1
5	*Mensper, Isaac L.*	*25 Leyton Street, Boro, S.E.*	*Surveyor*	1	2 6	1
6	*Prince, Ernest O.*	*12 Temple Chambers, Holborn, E.C.*	*Accountant*	1	2 6	1
7	*Retrop, Thomas P.*	*2 Lucas Street, Bexley*	*Solicitor*	3,000	375 — —	2,495
8	*Holdfast, Arthur*	*726 Lime Street, Liverpool*	*Cotton Merchant*	500	62 10 —	—
9	*Longley, James F.*	*6 Park Drive, Bromfield*	*Gentleman*	10,000	1,250 — —	5,500
10	*Oliver, Mrs. Ruth*	*Halstead Park, Framley*	*Widow*	500	62 10 —	—
				16,505	2,063 2 6	10,000

NOTE.—The shares allotted to the vendor and his nominee have, in this case, been entered from Allotments Book, in order to have a complete record.

Holdfast and Mrs. Oliver, whose deposits were duly returned in full with Letters of Regret, Nos. 1 and 2. The moneys due on allotment were payable by January 20th, by which date they were all received.

Allotments were also made to the vendor and his nominee as follows :—

Frank Waldron, Merchant, 1 Penley Mansions, Sidcup, 15,000 shares (4,501 to 19,500).

Ellen Goode, Spinster, 114 High Road, Sydenham, 5,000 Shares (19,501 to 24,500).

Write up the Application and Allotments Book, and Shareholders' Cash Book, recording the above particulars.

71 **SHAREHOLDERS' CASH BOOK** 71

Dr. (ORDINARY SHARES.) *Cr.*

Date.	Receipts.	Folio.	Amount.	Date.	Payments.	Folio.	Amount.
19—				19—			
Jan. 2	To Application A/c—			Jan. 13	By Application A/c—		
„	Barker, M. B.	101	312 10 —	„	Holdfast, A.	c.	62 10 —
3	Clarke, E.	102	2 6	„	Oliver, Mrs. R.	c.	62 10 0
4	Dalton, J. F.	103	2 6	„	Balance c/f		1,938 2 6
„	Evans, Fred	104	2 6				
6	Mensper, I. L.	105	2 6				
„	Prince, O.	106	2 6				
7	Retrop, T. P.	107	375 —				
„	Holdfast, A.	c.	62 10 —				
8	Longley, J. F.	110	1,250 —				
„	Oliver, Mrs. R.	c.	62 10 —				
			2,063 2 6				2,063 2 6

BOOK (ORDINARY SHARES) 21

Distinctive Numbers. From.	Distinctive Numbers. To.	Share Ledger Folio.	Amount due on Application and Allotment.	Balance due on Allotment.	Cash paid on Allotment.	Cash returned.	No. of Share Certificates.	Remarks.
1	2,000	101	1,000 — —	687 10 —	687 10 —		1	*Signatory*
	2,001	102	10 —	7 6	7 6		2	„
	2,002	103	10 —	7 6	7 6		3	„
	2,003	104	10 —	7 6	7 6		4	„
—	2,004	105	10 —	7 6	7 6		5	„
—	2,005	106	10 —	7 6	7 6		6	„
2,006	4,500	107	1,247 10 —	872 10 —	872 10 —		7	„
—	—	—	— — —	— — —	— — —	62 10 —	—	*Letter of Regret, No. 1*
24,501	30,000	110	2,750 — —	1,500 — —	1,500 — —		10	
—	—	—	— — —	— — —	— — —	62 10 —	—	*Letter of Regret, No. 2*
			5,000 — —	3,061 17 6	3,061 17 6	125 — —		

the Journal into the Share Ledger; some accountants, however, enter them in the Application and

72 **SHAREHOLDERS' CASH BOOK** 72

Dr. (ORDINARY SHARES.) *Cr.*

Date.	Receipts.	Folio.	Amount.	Date.	Payments.	Folio.	Amount.
19—				19—			
Jan. 15	To Balance b/f		1,938 2 6	Jan. 20	By Transfer to General Cash Book		5,000 — —
20	„ Allotment A/c:						
„	Barker, M. B.	101	687 10 —				
„	Clarke, E.	102	7 6				
„	Dalton, J. F.	103	7 6				
„	Evans, Fred	104	7 6				
„	Mensper, I. L.	105	7 6				
„	Prince, E. O.	106	7 6				
„	Retrop, T. P.	107	872 10 —				
„	Longley, J. F.	110	1,500 — —				
			5,000 — —				5,000 — —

For Example 2, see page 485.

91 **SHAREHOLDERS' CASH BOOK** 91

Dr. (PREFERENCE SHARES.) *Cr.*

Date.	Receipts.	S.L. Folio.	Amount.	Date.	Payments.	S.L. Folio.	Amount.
19—				19—			
Jan. 2	To Application A/c—			Jan. 15	By Application A/c—		
„	Holloway, P. F.	261	875 — —	„	Walters, A.	c.	25 — —
„	Cooper, A. O.	262	2,750 — —	„	Dixon, T. F.	c.	25 — —
3	Walters, A.	c.	25 — —	„	Balance c/f		9,775 — —
„	Edwards, H.	263	400 — —				
4	Newton, J. F.	264	1,000 — —				
„	Archer, F.	265	1,125 — —				
5	Greale, E. P.	266	875 — —				
„	Rawlings, G.	267	375 — —				
6	Brooke, S. L.	268	500 — —				
„	Dixon, T. F.	c.	25 — —				
7	Lipton, R.	269	500 — —				
8	Penley, C. N.	270	1,375 — —				
			9,825 — —				9,825 — —

92 **SHAREHOLDERS' CASH BOOK** 92

Dr. (PREFERENCE SHARES.) *Cr.*

Date.	Receipts.	S.L. Folio.	Amount.	Date.	Payments.	S.L. Folio.	Amount.
19—				19—			
Jan. 15	To Balance b/f		9,775 — —	Jan. 15	By Allotment A/c—		
20	„ Allotment A/c—			„	Cooper, A. O.	262	250 — —
„	Holloway, P. F.	261	775 — —	„	By Transfer to General Cash Book		15,000 — —
„	Edwards, H.	263	300 — —				
„	Newton, J. F.	264	700 — —				
„	Archer, F.	265	875 — —				
„	Greale, E. P.	266	625 — —				
„	Rawlings, G.	267	375 — —				
„	Brooke, S. L.	268	475 — —				
„	Lipton, R.	269	225 — —				
„	Penley, C. N.	270	1,125 — —				
			15,250 — —				15,250 — —

Example 2.—Thirty thousand Preference Shares of the Waldron Manufacturing and Trading Co., Ltd., were offered to the public on January 1st, payable as follows :—5s. per share on application, 5s. per share on allotment, and the balance in calls not exceeding 5s. per share.

Applications were received, and allotments made, as under :—

		No. of Shares applied for.	No. of Shares allotted.
Jan. 2.	Percy F. Holloway, Baker, 57 Luton Road, Bedford	3,500	3,300
„	Albert O. Cooper, Gentleman, The Cedars, Farnham, Surrey	11,000	5,000
3.	Allan Walters, Clerk, 112 Burntwood Lane, London, E.C.	100	nil
„	Henry Edwards, Barrister, 3 Green Lanes, Mitcham	1,600	1,400
4.	James T. Newton, Butcher, 7 The Meat Market, Reading	4,000	3,400
„	Frederick Archer, Coal Merchant, 777 High Street, Cardiff	4,500	4,000
5.	Edward P. Greale, Farmer, 21 Park Fields, Buckley	3,500	3,000
„	George Rawlings, Stock Broker, 114 Maida Vale, London, S.W.	1,500	1,500
6.	Samuel L. Brooke, Brewer, 15 Long Street, Burton	2,000	1,950
„	Thomas F. Dixon, Clerk, 120 Keale Street, Tonge	100	nil
7.	Rufus Lipton, Grocer, 42 Littleton Street, Devizes	2,000	1,450
8.	Claude N. Penley, Colonel, 15 Tothill Mansions, Paignton	5,500	5,000

51 APPLICATION AND ALLOTMENTS

No. of Application.	Name.	Address.	Occupation.	No. of Shares applied for.	Amount paid on Application.	No. of Shares allotted.
1	*Holloway, Percy F.*	*57 Luton Road, Bedford*	*Baker*	3,500	875 – –	3,300
2	*Cooper, Albert O.*	*The Cedars, Farnham, Surrey*	*Gentleman*	11,000	2,750 – –	5,000
3	*Walters, Allan*	*112 Burntwood Lane, E.C.*	*Clerk*	100	25 – –	—
4	*Edwards, Henry*	*3 Green Lanes, Mitcham*	*Barrister*	1,600	400 – –	1,400
5	*Newton, James T.*	*7 The Meat Market, Reading*	*Butcher*	4,000	1,000 – –	3,400
6	*Archer, Frederick*	*777 High Street, Cardiff*	*Coal Merchant*	4,500	1,125 – –	4,000
7	*Greale, Edward P.*	*21 Park Fields, Buckley*	*Farmer*	3,500	875 – –	3,000
8	*Rawlings, George*	*114 Maida Vale, S.W.*	*Stock Broker*	1,500	375 – –	1,500
9	*Brooke, Samuel L.*	*15 Long Street, Burton*	*Brewer*	2,000	500 – –	1,950
10	*Dixon, Thomas F.*	*120 Keale Street, Tonge*	*Clerk*	100	25 – –	—
11	*Lipton, Rufus*	*42 Littleton Street, Devizes*	*Grocer*	2,000	500 – –	1,450
12	*Penley, Claude N.*	*15 Tothill Mansions, Paignton*	*Colonel*	5,500	1,375 – –	5,000
				39,300	9,825 – –	30,000

Deposits were returned in full with Letters of Regret, Nos. 3 and 4 to Dixon and Walters. Allotments were made on January 15th in order of application, the shares being numbered from 50,001 upwards. The amount over-subscribed by Cooper, after deducting amount due on allotment, was duly returned to him.

Write up the Application and Allotments Book, and Shareholders' Cash Book, recording the above particulars.

RETURN OF ALLOTMENTS

Provisions of the Companies Acts.—By section 88 of the Companies (Consolidation) Act, 1908 :—

(1) Whenever a company limited by shares makes any allotment of its shares, the company shall within one month thereafter file with the registrar of companies :—

(*a*) a return of the allotments, stating the number and nominal amount of the shares comprised in the allotment, the names, addresses, and descriptions of the allottees, and the amount (if any) paid or due and payable on each share ; and

(*b*) in the case of shares allotted as fully or partly paid up otherwise than in cash, a contract in writing constituting the title of the allottee to the allotment together with any contract of sale, or for services or other consideration in respect of which that allotment was made, such contracts being duly stamped, and a return stating the number and nominal amount of shares so allotted, the extent to which they are to be treated as paid up, and the consideration for which they have been allotted.

BOOK (PREFERENCE SHARES) 51

Distinctive Numbers. From.	Distinctive Numbers. To.	Share Ledger Folio.	Amount due on Application and Allotment.	Balance due on Allotment.	Cash paid on Allotment.	Cash returned.	No. of Share Certificate.	Remarks.
50,001	53,300	261	1,650 — —	775 — —	775 — —		501	
53,301	58,300	262	2,500 — —	— — —	— — —	250 — —	502	*Oversubscribed Letter of Regret No. 3*
—	—	—	— — —	— — —	— — —	25 — —	—	
58,301	59,700	263	700 — —	300 — —	300 — —		503	
59,701	63,100	264	1,700 — —	700 — —	700 — —	— — —	504	
63,101	67,100	265	2,000 — —	875 — —	875 — —	— — —	505	
67,101	70,100	266	1,500 — —	625 — —	625 — —	— — —	506	
70,101	71,600	267	750 — —	375 — —	375 — —	— — —	507	
71,601	73,550	268	975 — —	475 — —	475 — —	— — —	508	
—	—	—	— — —	— — —	— — —	25 — —	—	*Letter of Regret No. 4*
73,551	75,000	269	725 — —	225 — —	225 — —	— — —	509	
75,001	80,000	270	2,500 — —	1,125 — —	1,125 — —	— — —	510	
			15,000 — —	5,475 — —	5,475 — —	300 — —		

(2) Where such a contract as above mentioned is not reduced to writing, the company shall within one month after the allotment file with the registrar of companies the prescribed particulars of the contract stamped with the same stamp duty as would have been payable if the contract had been reduced to writing.

(3) If default is made in complying with the requirements of this section, every director, manager, secretary, or other officer of the company, who is knowingly a party to the default, shall be liable to a fine not exceeding fifty pounds for every day during which the default continues.

Example.—From the previous examples, Nos. 1 and 2, referring to the allotment of ordinary and preference shares, make out on the prescribed form the statutory Return of Allotments. (See pages 488 and 489.)

CALL BOOK

Nature and Use.—This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns for the names and addresses of the shareholders, the number of shares held, the amount due from each shareholder in respect of the call, and also the amounts actually paid. A separate Call Book is kept for each class of shares, ordinary, preference, deferred, etc.

How Calls are made.—It is generally stated in the prospectus that calls will be made at certain specified dates after allotment, or at such other times as the directors may appoint in accordance

Number of Certificate } 142014

[Form No. 45

"THE COMPANIES ACTS, 1908 TO 1917."

A Companies' Fee Stamp of 5s. must be impressed here.

RETURN OF ALLOTMENTS

OF

The Waldron Manufacturing and Trading Company

Limited

made the† 15*th* day of *January*, 19 ,
Made pursuant to Section 88, Sub-Section 1, of The Companies (Consolidation) Act, 1908.

(To be filed with the Registrar of Joint Stock Companies within one month after the Allotment is made.)

* Distinguish between Preference, Ordinary, or other descriptions of Shares.

*Number of the *Ordinary* Shares allotted payable in Cash	10,000
*Number of the *Preference* Shares allotted payable in Cash	30,000
*Nominal Amount of the *Ordinary* Shares so allotted	£10,000
*Nominal Amount of the *Preference* Shares so allotted	£30,000
*Amount paid or due and payable on each such *Ordinary* Share	£1
*Amount paid or due and payable on each such *Preference* Share	£1
Number of Shares allotted for a consideration other than Cash *Ordinary*	20,000
Nominal amount of the shares so allotted	£20,000
Amount to be treated as paid on each such Share	£1

The Consideration for which such Shares have been allotted is as follows :—

Part payment of the purchase price of the Goodwill and Assets of the business of Frank T. Waldron

† **NOTE.**—In making a return of Allotments it is to be noted that :—

1. When a return includes several Allotments made on different dates, the dates of only the first and last of such Allotments should be entered at the top of this page, and the registration of the return should be effected within one month of the first date.
2. When a return relates to one Allotment only, made on one particular date, that date only should be inserted and the spaces for the second date struck out and the word "made" substituted for the word "from" after the name of the Company.

NAMES, ADDRESSES, AND DESCRIPTIONS OF THE ALLOTTEES IN THE WALDRON MANUFACTURING AND TRADING CO., LIMITED

Surname.	Christian Name.	Address.	Description.	Number of Shares Allotted.		
				Preference.	Ordinary.	Deferred.
Barker	*Matthew*	71 *Lime Street, Barnes, S.W.*	*Solicitor*	——	2,000	——
Clarke	*Edward*	120 *Mare Street, Hackney, N.E.*	*Solicitor's Clerk*	——	1	——
Dalton	*John*	194 *Mildmay Park, N.*	*H.M.C.S.*	——	1	——
Evans	*Fred*	96 *Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*	——	1	——
Mensper	*Isaac*	25 *Leyton Street, Boro, S.E.*	*Surveyor*	——	1	——
Prince	*Ernest*	12 *Temple Chambers, Holborn, E.C.*	*Accountant*	——	1	——
Retrop	*Thomas*	2 *Lucas Street, Bexley*	*Solicitor*	——	2,495	——
Waldron	*Frank*	1 *Penley Mansions, Sidcup*	*Merchant*	——	15,000	——
Goode	*Miss Ellen*	114 *High Road, Sydenham*	*Spinster*	——	5,000	——
Longley	*James*	6 *Park Drive, Bromfield*	*Gentleman*	——	5,500	——
Holloway	*Percy*	57 *Luton Road, Bedford*	*Baker*	3,300	——	——
Cooper	*Albert*	*The Cedars, Farnham, Surrey*	*Gentleman*	5,000	——	——
Edwards	*Henry*	3 *Green Lanes, Mitcham*	*Barrister*	1,400	——	——
Newton	*James*	7 *The Meat Market, Reading*	*Butcher*	3,400	——	——
Archer	*Frederick*	777 *High Street, Cardiff*	*Coal Merchant*	4,000	——	——
Greale	*Edward*	21 *Park Fields, Buckley*	*Farmer*	3,000	——	——
Rawlings	*George*	114 *Maida Vale, S.W.*	*Stock Broker*	1,500	——	——
Brooke	*Samuel*	15 *Long Street, Burton*	*Brewer*	1,950	——	——
Lipton	*Rufus*	42 *Littleton Street, Devizes*	*Grocer*	1,450	——	——
Penley	*Claude*	15 *Tothill Mansions, Paignton*	*Colonel*	5,000	——	——
				30,000	30,000	——

(Signature) *T. Dunscome Matthews*

(Officer) *Secretary*

WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

(Incorporated under the Companies Acts, 1908 to 1917.)

NOTICE OF CALL.

FIRST CALL OF 5/- per SHARE on PREFERENCE SHARES

(Making.....per share called up.)

No..... *Registered Office,*

.....19.....

Sir or Madam,

I beg to give you notice that a First Call of 5/- per share on the Preference Shares has been made by the Board of Directors in accordance with the terms of the Prospectus.

The amount payable by you in respect of the.....shares in this Company of which you are the registered holder is £ : : , and I have to request that you will be good enough to pay this sum to the Company's Bankers, THE METRO BANK, LIMITED, ANNON STREET, LONDON, S.W., on or before the.....instant.

Yours faithfully,

To.....

.....

....

..... *Secretary.*

This form must be forwarded ENTIRE, together with remittance, to the Company's Bankers.

. . . . . .

WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

BANKERS' RECEIPT.

No.....

RECEIVED this.....day of.....19.....

from.....

the sum of.....

being 5/- per share payable on First Call on.....Preference Shares in the above Company.

For THE METRO BANK, LIMITED.

..... *Stamp.* .....

£ : :

Cashier.

This Receipt, when returned by the Bankers, must be preserved and exchanged in due course for share certificate.

with the powers conferred on them by the Articles of Association. The call is made by the Board of Directors, the resolution authorising the call being duly passed and entered up in the Directors' Minute Book. In some cases, however, by the Articles of Association, a call can only be made with the consent of the shareholders to a resolution passed in general meeting. The directors will be guided by the company's regulations as to times of making calls, intervals between different calls, and time for payment.

Procedure after Call has been Made.—When the directors have met and passed a resolution calling up any portion of the unpaid capital allotted, particulars will be entered in the Call Book. Call notices, provided with a printed form of receipt, will be dispatched to the shareholders concerned. Call Notices to be legally effective must state definitely the amount called, the total amount due, and at what time and at what place it is payable.

Shareholders are entitled to reasonable notice, and are usually given 10 to 20 days. The money is payable at the company's bankers as in the case of application and allotment instalments ; but, in small companies, it may be made payable direct to the company's registered office. The company's bankers will keep a separate pass book for the calls on each class of shares. The pass book will be obtained from the bank and the details will be entered in the Call Book and the Shareholders' Cash Book. The Call Book is added and the totals agreed with the total amount of call due, in order to guard against any names being omitted from the list ; the total of the Cash Received column is also agreed with the Bank Pass Book total.

Interest on Calls.—Columns are provided, in the Call Book, for interest. Some shareholders may not be able to pay the whole of the amount due from them within the time stipulated by the Call Notice. In such cases an extension of time is granted to such shareholders on condition that they pay interest on the sum due up to the actual time of payment. Again, some shareholders pay their shares right up in full, not wishing to be troubled by constant calls. In these cases interest is allowed by the company.

Example 1.—On May 5th the directors of the Waldron Manufacturing and Trading Co., Ltd., made a first Call of 5s. per share on the Ordinary Shares. The Call was payable by the 20th May, and the following amounts were received :—

19—			£	s.	d.
May 9.	E. Clarke	1 share	–	5	–
11.	F. Evans	1 „	–	5	–
13.	T. P. Retrop	2,495 shares	123	15	–
14.	E. O. Prince	1 share		5	–
15.	J. F. Dalton	1 „		5	–
17.	J. F. Longley	5,500 shares	1,375	–	–
18.	M. B. Barker	2,000 „	250	–	–
20.	I. L. Mensper	1 share		5	–

Barker and Retrop were allowed till June 20th to pay the balance, plus interest at 5%, on which date the sums due (including interest thereon) were duly received. Write up the Call Book and the Shareholders' Cash Book. (See page 493.)

Example 2.—On May 5th the directors of the Waldron Manufacturing and Trading Co., Ltd., made a first Call of 5s. per share on the Preference Shares. The Call was payable by 20th May, and the following amounts were received :—

19—			£	s.	d.
May 8.	A. O. Cooper	5,000 shares	1,250	–	–
10.	F. Archer	4,000 „	1,000	–	–
12.	E. P. Greale	3,000 „	250	–	–
13.	C. N. Penley	5,000 „	1,250	–	–
14.	G. Rawlings	1,500 „	375	–	–
16.	S. L. Brooke	1,950 „	487	10	–
17.	R. Lipton	1,450 „	725	–	–
19.	P. F. Holloway	3,300 „	825	–	–
20.	J. F. Newton	3,400 „	850	–	–

E. P. Greale was allowed till June 20th to pay the balance, on which date the sum due (plus interest thereon at 5%) was duly received. No money at all was received from H. Edwards, whose shares were forfeited on June 25th. Write up the Call Book and the Shareholders' Cash Book. (See page 493.)

73 SHAREHOLDERS' CASH BOOK 73

Dr. (ORDINARY SHARES.) *Cr.*

Date.	Receipts.	S.L. Folio.	Amount.	Date.	Payments.	S.L. Folio.	Amount.
19—				19—			
May 9	To First Call A/c—			May 20	By Transfer to General Cash Book		1,750 – –
„	Clarke, B.	102	5 –				
11	Evans, F.	104	5 –				
13	Retrop, T. P.	107	123 15 –				
14	Prince, E. O.	106	5 –				
15	Dalton, J. F.	103	5 –				
17	Longley, J. F.	110	1,375 – –				
18	Barker, M. B.	101	250 – –				
20	Mensper, I. L.	104	5 –				
			1,750 – –				1,750 – –
June 20	To First Call A/c—			June 20	By Transfer to General Cash Book		750 – –
„	Barker, M. B.	101	250 – –				
„	Retrop, T. P.	107	500 – –				
„	To Interest—			„	Ditto		3 3 9
	Barker, M. B.	101	1 1 3				
	Retrop. T. P.	107	2 2 6				
			753 3 9				753 3 9

CALL BOOK (ORDINARY SHARES)

61

FIRST CALL OF 5s. PER SHARE MADE MAY 5TH AND PAYABLE BY MAY 20TH

S.L. Folio.	Name.	Address.	No. of Shares held.	Amount due.	Amount paid.	Arrears. Amount.	Arrears. Days.	Arrears. Interest.	Calls paid in Advance.	Remarks.
101	*Barker, M. B.*	*71 Lime Street, Barnes, S.W.*	2,000	500 — —	250 — —	250 — —	31	1 1 3		*Paid June 20th*
102	*Clarke, E.*	*120 Mare Street, Hackney, N.E.*	1	5 —	5 —					
103	*Dalton, J. F.*	*194 Mildmay Park, N.*	1	5 —	5 —					
104	*Evans, F.*	*96 Rood Lane, Brixton, S.W.*	1	5 —	5 —					
105	*Mensper, I. L.*	*25 Leyton Street, Boro, S.E.*	1	5 —	5 —					
106	*Prince, E. O.*	*12 Temple Chambers, Holborn, E.C.*	1	5 —	5 —					
107	*Retrop, T. P.*	*2 Lucas Street, Bexley*	2,495	623 15 —	123 15 —	500 — —	31	2 2 6		*Paid June 20th*
110	*Longley, J. F.*	*6 Park Drive, Bromfield*	5,500	1,375 — —	1,375 — —					
			10,000	2,500 — —	1,750 — —	750 — —		3 3 9		

CALL BOOK (PREFERENCE SHARES)

81

FIRST CALL OF 5s. PER SHARE MADE MAY 5TH AND PAYABLE BY MAY 20TH

S.L. Folio.	Name.	Address.	No. of Shares held.	Amount due.	Amount paid.	Arrears. Amount.	Arrears. Days.	Arrears. Interest.	Calls paid in Advance.	Remarks.
261	*Holloway, P. F.*	*57 Luton Road, Bedford*	3,300	825 — —	825 — —					
262	*Cooper, A. O.*	*The Cedars, Farnham, Surrey*	5,000	1,250 — —	1,250 — —					
263	*Edwards, H.*	*3 Green Lanes, Mitcham*	1,400	350 — —	— — —	350 — —	31	1 9 9		*Not paid, forfeited*
264	*Newton, J. T.*	*7 The Meat Market, Reading*	3,400	850 — —	850 — —					
265	*Archer, F.*	*777 High Street, Cardiff*	4,000	1,000 — —	1,000 — —					
266	*Greale, E. P.*	*21 Park Fields, Buckley*	3,000	750 — —	250 — —	500 — —	31	2 2 6		*Paid June 20th*
267	*Rawlings, G.*	*111 Maida Vale, S.W.*	1,500	375 — —	375 — —					
268	*Brooke, S. L.*	*15 Long Street, Burton*	1,950	487 10 —	487 10 —					
269	*Lipton, R.*	*42 Littleton Street, Devizes*	1,450	362 10 —	725 — —				362 10 —	*Subject to 5 per cent interest*
270	*Penley, C. N.*	*15 Tothill Mansions, Paignton*	5,000	1,250 — —	1,250 — —					
			30,000	7,500 — —	7,012 10 —	850 — —		3 12 3	362 10 —	

93 SHAREHOLDERS' CASH BOOK 93

Dr. (PREFERENCE SHARES.) Cr.

Date.	Receipts.	S.L. Folio.	Amount.	Date.	Payments.	S.L. Folio.	Amount.
19—				19—			
May 8	To First Call A/c—			May 20	By Transfer to General Cash Book		6,650 – –
"	Cooper, A. O.	262	1,250 – –				
10	Archer, F.	265	1,000 – –				
12	Greale, E. P.	264	250 – –	"	" Transfer to General Cash Book		362 10 –
13	Penley, C. N.	270	1,250 – –				
14	Rawlings, G.	267	375 – –				
16	Brooke, S. L.	268	487 10 –				
17	Lipton, R.	269	362 10 –				
"	To Calls in Advance—						
	Lipton, R.	269	362 10 –				
19	To First Call A/c—						
	Holloway, P. F.	261	825 – –				
20	Newton, J. T.	264	850 – –				
			7,012 10 –				7,012 10 –
June 20	To First Call A/c—			June 20	By Transfer to General Cash Book		500 – –
	Greale, E. P.	266	500 – –				
"	To Interest—						
	Greale, E. P.	266	2 2 6	"	Ditto		2 2 6
			502 2 6				502 2 6

REGISTER OF TRANSFERS

Nature and Use.—This is a book ruled in tabular form. There is no standard ruling, but the book usually contains columns to record the names, addresses, and occupations of both transferor and transferee, the number of shares transferred, their distinctive numbers and the amount paid up thereon, the date the transfer was registered, and the number of new share certificate issued to the transferee. Other columns are also met with in some companies' books, viz., date the transfer was lodged with the company, number of old share certificate to be cancelled, number of balance certificate issued to transferor, amount of consideration received by transferor, date and number of minute passing the transfer, etc.

In large companies separate Transfer Registers are kept for each class of shares, also a separate department and staff. In small companies one register frequently suffices, transfers of ordinary shares being entered in black ink, and transfers of preference shares in red ; while in many such companies the Register of Transfers is frequently bound up with the Share Ledger, and thus forms part of it.

How Shares are Transferred.—Most companies' Articles require transfers of shares to be made by deed ; though where this is not the case, the transfer can be made by agreement under hand, by both parties affixing their signatures thereto. Generally speaking, any one wishing to transfer shares must execute a transfer deed. A specimen of such a document is given on page 495. Subject to a few exceptions, an *ad valorem* stamp duty of 1%, *i.e.*, 20s. per £100,

Stamp.

SHARE TRANSFER.

I, _____
of _____
_____
in consideration of the sum of _____
_____
paid to me by _____
of _____
_____
DO HEREBY TRANSFER to the said _____
_____shares of £____each, _____per share paid, numbered_____
to_____inclusive, standing in my name in the books of the
_____ Company, Limited.

TO HOLD unto the said_____
his executors, administrators, and assigns subject to the several conditions on which I held the same at the time of the execution hereof. And I the said_____do hereby agree to take the said shares subject to the conditions aforesaid.

AS WITNESS OUR HANDS this_____day of _____, in the Year of Our Lord, One thousand nine hundred and_____.

Signed by the above-named
_____
in the presence of
WITNESS { *Signature* _____
Address _____
_____
Occupation _____

Signature
_____
Seal.

Signed by the above-named
_____
in the presence of
WITNESS { *Signature* _____
Address _____
_____
Occupation _____

Signature
_____
Seal.

is payable by means of an impressed stamp, as shown in the following table.

Consideration not exceeding £	Amount. £ s. d.	Consideration not exceeding £	Amount. £ s. d.
5	1 –	125	1 5 –
10	2 –	150	1 10 –
15	3 –	175	1 15 –
20	4 –	200	2 – –
25	5 –	225	2 5 –
50	10 –	250	2 10 –
75	15 –	275	2 15 –
100	1 – –	300	3 – –

and 10s. for every additional £50 or fraction thereof. The duty must be paid within thirty days of the signing of the transfer. When shares are transferred for a "nominal" consideration, the stamp duty payable is fixed at 10s. irrespective of the value of the stock or shares transferred. This fixed duty of 10s. is applicable when the transaction falls within one of the following descriptions :—

(*a*) Vesting the property in trustees on the appointment of a new trustee of a pre-existing trust, or on the retirement of a trustee.

(*b*) A transfer, as for a nominal consideration, to a mere nominee of the transferor where no beneficial interest in the property passes.

(*c*) A transfer by way of security for a loan ; or a re-transfer to the original transferor on repayment of a loan.

(*d*) A transfer to a residuary legatee of stock, etc., which forms part of the residue divisable under a will.

(*e*) A transfer to a beneficiary under a will of a specific legacy of stock, etc.

(*f*) A transfer of stock, etc., being the property of a person dying intestate to the party or parties entitled to it.

If a transfer, however, is made on a sale, or in liquidation of a debt, or in exchange for other securities, *ad valorem* duty is payable on the value, or agreed value, of the consideration.

It should be noted that by section 74 of the Finance (1909-10) Act, 1910, a transfer of any shares, stock, or marketable security by way of gift *completed in the lifetime of the donor* is liable to *ad valorem* duty.

Provisions of Table A.—The following clauses of Table A, which are typical of most Articles of Association, should be carefully noted :—

18. The instrument of transfer of any share in the company shall be executed both by the transferor and transferee, and the transferor shall be deemed to remain a holder of the share until the name of the transferee is entered in the Register of Members in respect thereof.

19. Shares in the company shall be transferred in the following form, or in any usual or common form which the directors shall approve :

20. The directors may decline to register any transfer of shares, not being fully-paid shares, to a person of whom they do not approve, and may also decline to register any transfer of shares on which the company has a lien. The directors may also suspend the registration of transfers during the fourteen days immediately preceding the ordinary general meeting in each year. The directors may decline to recognise any instrument of transfer unless :—

(*a*) a fee not exceeding 2s. 6d. is paid to the company in respect thereof and

(*b*) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

21. The executors or administrators of a deceased sole holder of a share shall be the only persons recognised by the company as having any title to the share. In the case of a share registered in the names of two or more holders, the survivors or survivor, or the executors or administrators of the deceased

survivor, shall be the only persons recognised by the company as having any title to the share.

22. Any person becoming entitled to a share in consequence of the death or bankruptcy of a member shall, upon such evidence being produced as may from time to time be required by the directors, have the right, either to be registered as a member in respect of the share or, instead of being registered himself, to make such transfer of the share as the deceased or bankrupt person could have made; but the directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by the deceased or bankrupt person before the death or bankruptcy.

23. A person becoming entitled to a share by reason of the death or bankruptcy of the holder shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a member in respect of the share, be entitled in respect of it to exercise any right conferred by membership in relation to meetings of the company.

Registration of Transfers.—Each transfer deed has to be forwarded, together with the share certificate concerned, to the company's registered office for approval and registration. The transfer is examined with respect to stamp duty, date, signatures, etc., and the distinctive numbers of the shares mentioned therein are compared with the numbers stated in the share certificate, also with those in the shareholder's account in the Share Ledger. The signature of the transferor is compared with his signature on previous transfers or on application forms. In some cases the transferor is notified by the company of the lodgment of the transfer, as a precaution against forgery. The transfer is then submitted to the Board of Directors. If they approve it, a resolution is passed and recorded in the Directors' Minute Book. Particulars are then entered in the Register of Transfers, the transfer deeds being numbered in consecutive order. A new share certificate is made out for the transferee. If the shares transferred form only part of a shareholder's holding, it is the practice to issue a balance certificate to the transferor; an alternative method is to note the shares transferred on the margin or back of the original certificate, but this is very unusual. Where balance certificates are issued, the old certificate is cancelled by scribbling or stamping across the signatures of the directors and secretary. The Register of Transfers is often initialed by a director up to the date at which the transfers have been passed. A registration fee of 2s. 6d. is usually charged in respect of each transfer.

Forged Transfer.—If a forged transfer is passed by the directors, the transferee acquires no rights to the shares mentioned therein, even though he may have received a share certificate from the company; and his name may be removed from the Register of Members. The company remains liable to the true owner for any dividends he may have lost through their action, and it can be compelled to re-enter his name on the Register of Members in respect

of such shares. The Forged Transfers Acts, 1891 and 1892, give power to joint stock companies, local authorities, incorporated friendly societies, and building or other provident societies to charge an additional fee on each transfer registered in order to provide a fund out of which to compensate the *transferee* for any loss sustained under a forged transfer.

Blank Transfer.—A blank transfer is one signed by the transferor, but in which the name of the transferee and the date of execution are not filled in. It is usually deposited with the lender, together with the share certificate concerned, as security for a loan. The company will not, of course, recognise a blank transfer ; but it gives the holder an equitable right to the shares mentioned therein. If desired, the necessary particulars are filled in and the transfer duly registered, thereby giving the holder the legal title to such shares.

Certification of Transfers.—This is a practice that has grown up owing to the exigencies of Stock Exchange procedure. If a seller's share certificate includes more shares than he wishes to dispose of, he cannot hand it over to the buyer along with the transfer deed ; so he takes his certificate and the transfer to the company's office, and has his transfer "certificated." If the documents are in order, the secretary writes or stamps on them a note similar to the following :—

> Certificate No. __216___ for ___500____ Shares of ___£1__ each, _15*s*._____per share paid up, numbered __781____ to __1280_____ inclusive, lodged at the Company's registered office this ___14*th*____ day of *Sept.*
> 19____ ___*A. Briller*_____, Secretary.

The buyers and their brokers then act on the faith of this certification just the same as if the certificate had been lodged with themselves. No fee is charged for certification. The object of it is to satisfy the transferee that the transferor can give a good title to the shares mentioned in the transfer. The old certificate is at once cancelled, a new certificate is eventually forwarded to the transferee, and a balance certificate to the transferor. It should be noted, however, that in the case of *George Whitechurch, Ltd.* v. *Cavanagh* it was decided that if a secretary fraudulently certifies a transfer without having received the certificate, the company can refuse to be bound in any way by the certification.

Example 1.—The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd. :—

June 25th, 500 shares (1—500) from M. B. Barker to I. L. Mensper ; No. of transfer deed, No. 1.

July 15th, 500 shares (501—1,000) from M. B. Barker to E. O. Prince.

August 4th, 1,000 shares (24,501—25,500) from J. F. Longley to T. P. Retrop.

September 15th, 200 shares (25,501—25,700) from J. F. Longley to J. F. Dalton.

November 10th, 500 shares (25,701—26,200) from J. F. Longley to Henry A. Johnson, Gentleman, 65 Old Steine, Brighton.

December 15th, 500 shares (26,201—26,700) from J. F. Longley to Fritz B. Thorpe, Auctioneer, 9 Minstrel Street, Hastings.

Write up the Company's Register of Transfers. (See pages 500-501.)

Example 2.—The following transfers of Preference Shares were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd.

July 2nd, 300 shares (50,001—50,300) from P. F. Holloway to F. Archer; No. of transfer deed, No. 1.

August 19th, 500 shares (53,301—53,800) from A. Cooper to S. L. Brooke.

September 8th, 400 shares (59,701—60,100) from J. F. Newton to G. Rawlings.

October 22nd, 1,000 shares (67,001—68,000) from E. P. Greale to F. Archer.

November 15th, 1,000 shares (75,001—76,000) from C. N. Penley to Percy Truefitt, Engineer, 12 High Street, Wycombe.

December 19th, 1,000 shares (76,001—77,000) from C. N. Penley to Oswald Vickers, Major, 179 Greene Street, Thurston.

Write up the Company's Register of Transfers. (See pages 500-501.)

SHARE CERTIFICATE BOOK

Nature and Use.—A Share Certificate is a document issued by limited companies to their shareholders, showing that the person named therein is the holder of so many shares in the company, and specifying the amounts paid up thereon. Share certificates are usually made up in book form like cheques, and perforated; so that each certificate issued has its corresponding counterfoil, on which short particulars are entered for reference.

Provisions of the Companies Acts.—By the Companies (Consolidation) Act, 1908, section 92, every company must within *two* months after the allotment of any of its shares, debentures, or debenture stock, and within two months after the registration of the transfer of any such shares, debentures, or debenture stock, complete and have ready for delivery the certificates of all shares, the debentures, and the certificates of all debenture stock allotted or transferred, unless the conditions of issue of the shares, debentures or debenture stock otherwise provide. A certificate under the

41 REGISTER OF TRANSFERS

No. of Transfer.	Date Transfer Registered.	Transferor's S.L. Folio.	Transferor's Name.	Transferor's Address.	Occupation.	S.L. Folio.	Name.
	19—						
1	*June* 25	101	*Barker, M. B.*	71 *Lime St., Barnes*	*Solicitor*	105	*Mensper, I. L.*
2	*July* 15	101	" "	" " "	"	106	*Prince, E. O.*
3	*Aug.* 4	110	*Longley, J. F.*	6 *Park Drive, Bromfield*	*Gentleman*	107	*Retrop, T. P.*
4	*Sept.* 15	110	" "	" " "	"	103	*Dalton, J. F.*
5	*Nov.* 10	110	" "	" " "	"	111	*Johnson, Henry A.*
6	*Dec.* 15	110	" "	" " "	"	112	*Thorpe, Fritz B.*

31 REGISTER OF TRANSFERS

No. of Transfer.	Date Transfer Registered.	Transferor's S.L. Folio.	Transferor's Name.	Transferor's Address.	Occupation.	S.L. Folio.	Name.
	19—						
1	*July* 2	261	*Holloway, P. F.*	57 *Luton Rd., Bedford*	*Baker*	265	*Archer, F.*
2	*Aug.* 19	262	*Cooper, A. O.*	*The Cedars, Farnham*	*Gentleman*	268	*Brooke, S. I.*
3	*Sept.* 8	264	*Newton, J. T.*	7 *The Meat Market, Reading*	*Butcher*	267	*Rawlings, G.*
4	*Oct.* 22	266	*Greale, E. P.*	21 *Park Fields, Buckley*	*Farmer*	265	*Archer, F.*
5	*Nov.* 15	270	*Penley, C. N.*	15 *Tothill Mansions, Paignton*	*Colonel*	271	*Truefitt, Percy*
6	*Dec.* 19	270	" "	" " "	"	272	*Vickers, Oswald*

common seal of the company, specifying any shares or stock held by any member is *primâ facie* evidence of the title of the member to the shares or stock.

Procedure in Connection with Share Certificates.—The certificates are usually issued in exchange for the allotment letters and the banker's receipts for instalments paid on application and allotment. Where a Call is made after the share certificates have been issued, the call notice will notify the shareholders that upon production of the share certificate, together with banker's receipt for call money, the amount of the call paid will be indorsed, by the Company, on the share certificate.

Distinctive Numbers of Shares.—In some share certificates the distinctive numbers of the shares are mentioned in the body of the certificate. In others the number of shares and also their distinctive numbers are mentioned in specially ruled columns in the margin. By this means several groups of shares can be entered in the same certificate.

(ORDINARY SHARES) 41

Transferee's		Shares Transferred.						No. of New Certificate.	Remarks.
Address.	Occupation.	No.	Distinctive Numbers.		Amount Paid Up.				
			From.	To.					
25 *Leyton St., Boro, S.E.*	*Surveyor*	500	1	500	375	–	–	11	
12 *Temple Chambers, E.C.*	*Accountant*	500	501	1,000	375	–	–	12	
2 *Lucas Street, Bexley*	*Solicitor*	1,000	24,501	25,500	750	–	–	13	
194 *Mildmay Park, N.*	*H.M.C.S.*	200	25,501	25,700	150	–	–	14	
65 *Old Steine, Brighton*	*Gentleman*	500	25,701	26,200	375	–	–	15	
9 *Minstrel St., Hastings*	*Auctioneer*	500	26,201	26,700	375	–	–	16	

(PREFERENCE SHARES) 31

Transferee's		Shares Transferred.						No. of New Certificate.	Remarks.
Address.	Occupation.	No.	Distinctive Numbers.		Amount Paid Up.				
			From.	To.					
777 *High St., Cardiff*	*Coal Merchant*	300	50,001	50,300	225	–	–	511	
15 *Long Street, Burton*	*Brewer*	500	53,301	53,800	375	–	–	512	
114 *Maida Vale, S.W.*	*Stock Broker*	400	59,701	60,100	300	–	–	513	
777 *High Street, Cardiff*	*Coal Merchant*	1,000	67,001	68,000	750	–	–	514	
12 *High Street, Wycombe*	*Engineer*	1,000	75,001	76,000	750	–	–	515	
179 *Greene St., Thurston*	*Major*	1,000	76,001	77,000	750	–	–	516	

Number of Share Certificate.—Each share certificate has a distinctive number, and this number is usually recorded in a special column in the Allotment Book, and frequently also in the Share Ledger.

Duplicate Certificates.—Companies usually have power by their Articles of Association to issue duplicate certificates to replace any that may have been defaced, lost, or destroyed, the holder being required to give the company a letter of indemnity. No fee is charged for the first certificate, but a small charge is generally made for duplicates.

Scrip.—This term is a Stock Exchange contraction for the word "subscription." It denotes a *provisional* certificate for shares or debentures in a joint stock company, or bonds of a Government loan. The scrip certificate is issued when the allotment money is paid, and is exchanged in due course for the share certificate or bond when all the instalments have been paid. The terms "scrip" and "share certificate" are often used, however, as if synonymous.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

ISSUE OF £10,000 DEBENTURES in BONDS of £100 EACH, bearing interest at £5 per cent. per annum on the amount for the time being paid up thereon.

Impressed 1d. stamp.

SCRIP CERTIFICATE.

No.___127____

THIS IS TO CERTIFY that _____

of _____

is entitled upon payment of all instalments when due, and subject to surrendering all receipts for such instalments, and also this SCRIP CERTIFICATE, to_____DEBENTURES of £_____ each in the above-named Company.

On completion of the payments this Certificate is to be surrendered to the Company to be exchanged for definitive Debentures.

This Certificate is issued subject to the conditions contained in the Prospectus dated the_____day of_____19____

GIVEN UNDER THE COMMON SEAL of the Company this _____day of_____19____

_____ _____ } *Directors.*
_____ }

Seal

_____
Secretary.

N.B.—The instalments paid will be indorsed on the back hereof by the Company on production of the Bankers' receipts for same.

On the back of the Scrip Certificate will appear the dates of the various payments, similar to the following :—

Date.	Description of Payment.	Rate.	Amount paid.			Signature of Secretary.
19—						
Feb. 15	*Application* . . .	10%	10	–	–	*T. Briller*
,, 25	*Allotment* . . .	20%	20	–	–	*T. Briller*
May 15	*First Call* . . .	30%	30	–	–	*T. Briller*
Sept. 15	*Second Call* . . .	40%	40	–	–	*T. Briller*

*No.*_____

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

CAPITAL £100,000.

50,000 ORDINARY SHARES OF £1 EACH.
50,000 6% PREFERENCE SHARES OF £1 EACH.

SHARE CERTIFICATE.

THIS IS TO CERTIFY that_____
of _____
is the Registered Proprietor of _____6% Preference Shares of £1 each, numbered_____to_____inclusive in the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company, and that there has been paid in respect of each of the said Shares the sum of

_____

_____

GIVEN UNDER THE COMMON SEAL of the Company this _____day of_____19_____

_____
_____ } *Directors.*

Seal.

_____
Secretary.

No Transfer of the above Shares can be made without the production of this Certificate.

Although a document under seal, a share certificate does not require a stamp; but a scrip certificate entitling a person *to become* the proprietor of shares requires an impressed 2d. stamp.

REGISTER OF MEMBERS AND SHARE LEDGER

Nature and Use.—The Register of Members is one of the statutory books. It is ruled in tabular form, though there is no standard ruling, as the law does not prescribe any particular form. By the provisions of the Companies (Consolidation) Act, 1908 (section 25) it must contain the following particulars :—

(*a*) The names and addresses, and the occupations (if any), of the members, and in the case of a company having a share capital a statement of the shares held by each member, distinguishing each share by its number, and of the amount paid or agreed to be considered as paid on the shares of each member.
(*b*) The date at which each person was entered in the Register as a member.
(*c*) The date at which any person ceased to be a member.

In actual practice, however, many additional particulars are kept, and the book is more generally known as a Share Ledger. In large companies separate Share Registers or Ledgers are provided for each class of shares, Ordinary, Preference, Deferred, etc. They are generally bound in different coloured bindings to prevent confusion. In small companies both Registers (and often the Transfer Register) are bound up in one book.

Date of Entry as a Member.—The date usually entered is the date of allotment ; which, in many cases, may not be the correct date. It should be the particular date on which the entry was actually made in the Register ; for the law does not recognise a person as a " member " until his name is actually entered in the company's official Register.

Forms of Ruling.—These fall naturally into two divisions : (*a*) where the shares are issued fully paid up, (*b*) where the shares are issued partly paid up. In the former case, only a statistical record will be necessary. In the latter case, a Cash Account will be required in addition to the statistical record, in order to record the various instalments due on application, allotment, and calls, and also the respective payments of same. The Cash Account will be used to record only the cash due and paid *to the Company*, not for the consideration money paid on the transfers of shares from one person to another. When the shares become fully paid the shareholders' accounts may be transferred to a new Share Ledger in which there may be only a statistical record. In many Registers the Cash Account is retained even after the shares have been fully paid. This facilitates entries for new shares issued to present holders.

Further Statutory Provisions.—By the Companies (Consolidation) Act, 1908, no trusts are to be entered on the Register. The Register must be kept at the registered office of the company, and must be open to the inspection of any member gratis, and to the inspection of any other person on payment of a fee not exceeding 1s. This

right of inspection only applies to a " going " concern ; after liquidation has been decided upon, application must be made to the Court. Any member or other person may require a copy of the Register, or of any part of it, or of the Annual List and Summary required by the Act, or any part of it, on payment of the prescribed fee. Circular advertising agencies generally avail themselves of this privilege in order to obtain lists of the investing public. A company may, on giving notice by advertisement in some paper circulating in the district in which the registered office is situate, close the Register for any time or times not exceeding in the whole thirty days in each year. The Court has power to rectify the Register in case of mistakes or omissions. The Register of Members is *primâ facie* evidence of any matters directed or authorised by the Act to be inserted therein. A joint stock company whose objects comprise the transaction of business in a colony (including British India and Australia) may, if so authorised by its Articles, keep a branch Register of Members in that colony, and such Colonial Register is deemed to be part of its principal Register. A copy of each entry must be transmitted to the registered office in order that a duplicate of such Register may be kept there.

Index.—Each Share Ledger contains in the front an alphabetical index in order to facilitate ready reference to the individual shareholder's accounts. In some cases, however, a general index is provided to serve for the whole of the Share Ledgers, Ordinary, Preference, Deferred, etc. This shows at a glance whether the same shareholder holds more than one kind of share.

Posting of Share Ledger.—The Register of Members and Share Ledger will be posted up in stages as follows :—

(1) The names, addresses, occupations, number of shares, distinctive numbers, amount due on application and allotment will be entered up from the Application and Allotments Book (or sheets) into the various shareholders' accounts. The cash received on application and allotment will be posted from the Shareholders' Cash Book to the same accounts.

(2) The amounts due on calls from time to time will be posted from the Call Book to the debit of the individual shareholders' accounts ; and the cash received on account of calls will be posted from the Shareholders' Cash Book to the credit of the same accounts.

(3) The shares transferred from time to time will be posted from the Register of Transfers to the shareholders' accounts concerned.

A debit balance in the Cash Account of any shareholder will indicate calls in arrear ; while a credit balance therein will denote calls paid in advance.

At balancing time the total of the balances in the various shareholders' accounts should equal the total amount of Called-up

Capital after adjustment of any Calls in Advance and Calls in Arrear.

Note re Folios.—In posting the Share Ledger folios must of course be inserted in order to facilitate subsequent reference. In the statutory and statistical books shown in the worked examples, and which have been posted to the Share Ledger, the first page of each book has not been numbered page 1, but *distinctive* folios have been adopted, viz., 21, 31, 41, and so on. This has been done in order to make the posting clearer to the student, and to enable him to trace the posting references immediately. With a lot of model books all numbered page 1, there would, to the student, be no ready or definite clue as to which book was referred to. In actual practice, however, the first page of each book would, of course, commence at page 1, no matter how many books there were.

Balance Column.—In the model Share Ledgers shown in the worked examples, the student will notice a column headed "Balance," with two sub-headings entitled "No. of Shares" and "Amount Paid up" respectively. Each transaction is entered on a fresh line, and the balance amended accordingly. The amount paid up is increased whenever more money is received; while the number of shares is increased or decreased whenever transfers take place. It is thus possible at any time to see, at a glance, how many shares a shareholder holds, and also the amount paid up on those shares. This also greatly facilitates the preparation of the Annual List and Summary mentioned later on in this chapter.

Example 1.—From the particulars given in the Application and Allotment Book, Call Book, Shareholders' Cash Book, and Register of Transfers, in previous examples, write up the Company's Ordinary Share Ledger. (See pages 508-513.)

Example 2.—From the particulars given in the Application and Allotment Book, Call Book, Shareholders' Cash Book, and Register of Transfers in previous examples, write up the Company's Preference Share Ledger. (See pages 514-519.)

REGISTER OF STOCKHOLDERS

Where shares have been converted into stock, a register of such shares will be necessary, and also a register of the stockholders. The rulings of these books are similar to those shown on page 507.

REGISTER OF SHARES CONVERTED INTO STOCK

Shares Converted.							Stock Created.			Remarks.
Folio in Share Ledger.	Name of Holder.	No. of Certificate.	Amount.	No. of Shares.	Inclusive Numbers. From.	Inclusive Numbers. To.	Folio in Stock Ledger.	Amount.	No. of Certificate.	

REGISTER OF STOCKHOLDERS

NAME _____

ADDRESS _____

_____

OCCUPATION _____

Stock Acquired.					Stock Transferred.				Balance.	
Date.	Folio.	Amount.	No. of Certificate.	Transferor's Folio in Register.	Date.	Folio.	Amount.	Transferee's Folio in Register.	Date.	Amount.

101 **REGISTER OF MEMBERS AND SHARE**

Name: *Barker, Matthew B.* Occupation: *Solicitor.*
Address: 71 *Lime Street, Barnes, London, S.W.*

Dr. CASH ACCOUNT. *Cr.*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up.
19— Jan. 15	To Appl. and Allot.	21	10 —	1,000 — —	19 Jan. 2	By Cash	71	312 10
					20	„ „	72	687 10
				1,000 — —				1,000 —
May 5	To First Call	61	5 —	500 — —	May 18	By Cash	73	250 —
June 20	„ Interest	61		1 1 3	20	„ „	„	250 —
					„	„ „ (Interest)	„	1 1
				501 1 3				501 1

102

Clarke, Edward *Solicitor's Clerk.*
120 *Mare Street, Hackney, London, N.E.*

19 Jan. 15	To Appl. and Allot.	21	10 —	10 —	19— Jan. 3	By Cash	71	2
					20	„ „	72	7
				10 —				10
May 5	To First Call	61	5 —	5 —	May 9	By Cash	73	5

103

Dalton, John F. *H.M.C.S.*
194 *Mildmay Park, London, N.*

19— Jan. 15	To Appl. and Allot.	21	10 —	10 —	19— Jan. 4	By Cash	71	2
					20	„ „	72	7
				10 —				10
May 5	To First Call	61	5 —	5 —	May 15	By Cash	73	5

104

Evans, Fred *Solicitor's Clerk.*
96 *Rood Lane, Brixton, London, S.W.*

19— Jan. 15	To Appl. and Allot.	21	10 —	10 —	19— Jan. 4	By Cash	71	2
					20	„ „	72	7
				10 —				10
May 5	To First Call	61	5 —	5 —	May 11	By Cash	73	5

DGER (ORDINARY SHARES) 101

e entered as a Member: *Jan.* 15*th*, 19—
e ceased to be a Member:

SHARES ACCOUNT.

	Shares Acquired.						Shares Transferred.						Balance.	
	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.		No. of Shares.	Amount paid up.
15	21	2,000	1	2,000									2,000	1,000 — —
													2,000	1,500 — —
						19—								
						June 25	41	500	1	500	375 — —		1,500	1,125 — —
						July 15	41	500	501	1,000	375 — —		1,000	750 — —

102

Jan. 15*th*, 19—

15	21	1	—	2,001								1		10 —
												1		15 —

103

Jan. 15*th*, 19—

15	21	1	—	2,002								1		10 —
												1		15 —
15	41	200	25,501	25,700	150 — —							201	150	15 —

104

Jan. 15*th*, 19—

15	21	1	—	2,003								1		10 —
												1		15 —

105 REGISTER OF MEMBERS AND SHAR

Name: *Mensper, Isaac L.* Occupation: *Surveyor*
Address: 25 *Leyton Street, Boro, London, S.E.*

Dr. CASH ACCOUNT. *Cr.*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid
19—					19—			
Jan. 15	To Appl. and Allot.	21	10 –	10 –	Jan. 6	By Cash	71	
					20	„ „	72	
				10 –				
May 5	To First Call	61	5 –	5 –	May 20	By Cash	73	

106

Prince, Ernest O. *Accountant*
12 *Temple Chambers, Holborn, London, E.C.*

19—					19—			
Jan. 15	To Appl. and Allot.	21	10 –	10 –	Jan. 6	By Cash	71	
					20	„ „	72	
				10 –				
May 5	To First Call	61	5 –	5 –	May 14	By Cash	73	

107

Retrop, Thomas P. *Solicitor*
2 *Lucas Street, Bexley*

19—					19—			
Jan. 15	To Appl. and Allot.	21	10 –	1,247 10 –	Jan. 7	By Cash	71	375
					20	„ „	72	872
				1,247 10 –				1,247
May 5	To First Call	61	5 –	623 15 –	May 13	By Cash	73	123
June 20	„ Interest	„		2 2 6	June 20	„ „	„	500
					„	„ „ (Interest)	„	2
				625 17 6				625

108

Waldron, Frank T. (Vendor) *Merchant*
1 *Penley Mansions, Sidcup*

19—								
Jan. 15	To Share Capital	J.		15,000 –		Issued as fully paid		15,000

...OGER (ORDINARY SHARES) 105

...e entered as a Member: *Jan.* 15*th*, 19—
...e ceased to be a Member:

SHARES ACCOUNT.

...e.	Folio.	Shares Acquired. No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.	Date.	Folio.	Shares Transferred. No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.	Balance. No. of Shares.	Amount paid up.
...15	21	1	—	2,004								1	10 —
												1	15 —
25	41	500	1	500	375 — —							501	375 15 —

106

Jan. 15*th*, 19—

...15	21	1	—	2,005								1	10 —
												1	15 —
15	41	500	501	1,000	375 — —							501	375 15 —

107

Jan. 15*th*, 19—

...15	21	2,495	2,006	4,500								2,495	1,247 10 —
												2,495	1,871 5 —
4	41	1,000	24,501	25,500	750 — —							3,495	2,621 5 —

108

Jan. 15*th*, 19—

...15	21	15,000	4,501	19,500								15,000	15,000 — —

109 REGISTER OF MEMBERS AND SHA

Name: *Goode, Ellen (Miss)* Occupation: *Spinster*
Address: 114 *High Road, Sydenham* *(Vendor's Nom*

Dr. CASH ACCOUNT.

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	To Am paid
19— Jan. 15	To Share Capital .	J.		5,000 — —		Issued as fully paid .		5,00

110

Longley, James F. *Gentleman*
Park Drive, Bromfield

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	
19— Jan. 15	To Appl. and Allot. .	21	10 —	2,750 — —	19— Jan. 8	By Cash . . .	71	1,25
					20	„ „ . . .	72	1,50
				2,750 — —				2,75
May 5	To First Call . .	61	5 —	1,375 — —	May 17	By Cash . . .	73	1,37

111

Johnson, Henry A. *Gentleman*
65 *Old Steine, Brighton*

112

Thorpe, Fritz B. *Auctioneer*
9 *Minstrel Street, Hastings*

EDGER (ORDINARY SHARES) 109

ate entered as a Member: *Jan. 15th*, 19—
ate ceased to be a Member:

SHARES ACCOUNT

Shares Acquired.						Shares Transferred.						Balance.	
ate.	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	No. of Shares.	Amount paid up.
n. 15	21	5,000	19,501	24,500								5,000	5,000 — —

110

Jan. 15th, 19—

n. 15	21	5,500	24,501	30,000								5,500	2,750 — —
												5,500	4,125 — —
						19—							
						Aug. 4	41	1,000	24,501	25,500	750 — —	4,500	3,375 — —
						Sept. 15	41	200	25,501	25,700	150 — —	4,300	3,225 — —
						Nov. 10	41	500	25,701	26,200	375 — —	3,800	2,850 — —
						Dec. 15	41	500	26,201	26,700	375 — —	3,300	2,475 — —

111

Nov. 10th, 19—

r. 10	41	500	25,701	26,200	375 — —							500	375 — —

112

Dec. 15th, 19—

15	41	500	26,201	26,700	375 — —							500	375 — —

261 REGISTER OF MEMBERS AND SHAR

Name: *Holloway, Percy F.* Occupation: *Baker*
Address: *57 Luton Road, Bedford*

Dr. CASH ACCOUNT. *Cr.*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 —	1,650 — —	Jan. 2	By Cash	91	875 —
					20	„ „	92	775 —
				1,650 — —				1,650 —
May 5	To First Call	81	5 —	825 — —	May 19	By Cash	93	825 —

262

Cooper, Albert O. *Gentleman*
The Cedars, Farnham, Surrey

19—					19—			
Jan. 15	To Appl. and Allot.	51	10 —	2,500 — —	Jan. 2	By Cash	91	2,750 —
20	„ Cash (returned)	91		250 — —				
				2,750 — —				2,750 —
May 5	To First Call	81	5 —	1,250 — —	May 8	By Cash	93	1,250 —

263

Edwards, Henry *Barrister*
3 Green Lanes, Mitcham

19—					19—			
Jan. 15	To Appl. and Allot.	51	10 —	700 — —	Jan. 3	By Cash	91	400 —
					20	„ „	92	300 —
				700 — —				700 —
May 5	To First Call	81	5 —	350 — —	June 25	By Share Capital		350 —
20	„ Interest	81		1 9 9		„ Interest A/c		1 9
				351 9 9				351 9

264

Newton, James T. *Butcher*
7 The Meat Market, Reading

19—					19—			
Jan. 15	To Appl and Allot.	51	10 —	1,700 — —	Jan. 4	By Cash	91	1,000 —
					20	„ „	92	700 —
				1,700 — —				1,700 —
May 5	To First Call	81	5 —	850 — —	May 20	By Cash	93	850 —

LEDGER (PREFERENCE SHARES) 261

Date entered as a Member: *Jan. 15th*, 19—
Date ceased to be a Member:

SHARES ACCOUNT

Shares Acquired.						Shares Transferred.						Balance.		
Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	No. of Shares.	Amount paid up.	
9—														
n. 15	51	3,300	50,001	53,300								3,300	1,650 – –	
												3,300	2,475 – –	
						19— July 2	31	300	50,001	50,300	225 – –	3,000	2,250 – –	

262

Jan. 15th, 19—

9—														
n. 15	51	5,000	53,301	58,300								5,000	2,500 – –	
												5,000	3,750 – –	
						19— Aug. 19	31	500	53,301	53,800	375 – –	4,500	3,375 – –	

263

Jan. 15th, 19—
June 25th, 19—

9—														
n. 15	61	1,400	58,301	59,700								1,400	700 – –	
					Shares forfeited D.M. No. 87, 25th June, 19—							Nil.	— – –	

264

June 25th, 19—

9—														
n. 15	51	3,400	59,701	63,100								3,400	1,700 – –	
												3,400	2,550 – –	
						19— Sept. 8	31	400	59,701	60,100	300 – –	3,000	2,250 – –	

265 REGISTER OF MEMBERS AND SHARE

Name: *Archer, Frederick* Occupation: *Coal Merchant*
Address: *777 High Street, Cardiff*

Dr. CASH ACCOUNT. *Cr.*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up.
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 –	2,000 – –	Jan. 4	By Cash	91	1,125 –
					20	„ „	92	875 –
				2,000 – –				2,000 –
May 5	To First Call	81	5 –	1,000 – –	May 10	By Cash	93	1,000 –

266

Greale, Edward P. *Farmer*
21 Park Fields, Buckley

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up.
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 –	1,500 – –	Jan. 5	By Cash	91	875 –
					20	„ „	92	625 –
				1,500 – –				1,500 –
May 5	To First Call	81	5 –	750 – –	May 12	By Cash	93	250 –
June 20	„ Interest	81		2 2 6	June 20	„ „	93	500 –
					„	„ Interest	93	2 2
				752 2 6				752 2

267

Rawlings, George *Stock Broker.*
114 Maida Vale, London, S.W.

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up.
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 –	750 – –	Jan. 5	By Cash	91	375 –
					20	„ „	92	375 –
				750 – –				750 –
May 5	To First Call	81	5 –	375 – –	May 14	By Cash	93	375 –

268

Brooke, Samuel L. *Brewer.*
15 Long Street, Burton

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up.
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 –	975 – –	Jan. 6	By Cash	91	500 –
					20	„ „	92	475 –
				975 – –				975 –
May 5	To First Call	81	5 –	487 10 –	May 16	By Cash	93	487 10

EDGER (PREFERENCE SHARES) 265

te entered as a Member: *Jan.* 15*th*, 19—
te ceased to be a Member:

SHARES ACCOUNT

Shares Acquired.								Shares Transferred.							Balance.			
te.	Folio.	No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.			Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.		No. of Shares.	Amount paid up.		
15	51	4,000	63,101	67,100											4,000	2,000	–	–
															4,000	3,000	–	–
2	31	300	50,001	50,300	225	–	–								4,300	3,225	–	–
22	31	1,000	67,101	68,100	750	–	–								5,300	3,975	–	–

266

Jan. 15*th*, 19—

15	51	3,000	67,101	70,100											3,000	1,500	–	–
															3,000	2,250	–	–
								19— Oct. 22	31	1,000	67,101	68,100	750	–	2,000	1,500	–	–

267

Jan. 15*th*, 19—

15	51	1,500	70,101	71,600											1,500	750	–	–
															1,500	1,125	–	–
8	31	400	59,701	60,101	300	–	–								1,900	1,425	–	–

268

Jan. 15*th*, 19—

15	51	1,950	71,601	73,550											1,950	975	–	–
															1,950	1,462	10	–
19	31	500	53,301	53,800	375	–	–								2,450	1,837	10	–

269 REGISTER OF MEMBERS AND SHAR

Name : *Lipton, Rufus* Occupation : *Grocer.*
Address : 42 *Littleton Street, Devizes*

Dr. CASH ACCOUNT. *Cr.*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up
19—					19—			
Jan. 15	To Appl. and Allot.	51	10 –	725 – –	Jan. 7	By Cash	91	500 –
					20	„ „	92	225 –
				725 – –				725 –
May 5	To First Call	81	5 –	362 10 –	May 17	By Cash	93	362 10
					„	„ „ (in advance)	93	362 10

270

Penley, Claude N. *Colonel.*
15 *Tothill Mansions, Paignton*

Date.	Particulars.	Folio.	Amount called up per Share.	Total Amount called up.	Date.	Particulars.	Folio.	Total Amount paid up
19—					19—			
Jan. 15	To Appl. and Allot.	56	10 –	2,500 – –	Jan. 8	By Cash	91	1,375 –
					20	„ „	92	1,125 –
				2,500 – –				2,500 –
May 5	To First Call	81	5 –	1,250 – –	May 13	By Cash	93	1,250 –

271

Truefitt, Percy *Engineer.*
12 *High Street, Wycombe*

272

Vickers, Oswald *Major.*
179 *Greene Street, Thurston*

EDGER (PREFERENCE SHARES) 269

te entered as a Member: *Jan.* 15*th*, 19—
te ceased to be a Member:

SHARES ACCOUNT

Shares Acquired.						Shares Transferred.						Balance.		
ate.	Folio.	No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.	Date.	Folio.	No. of Shares.	Distinctive Numbers. From.	To.	Amount paid up.	No. of Shares.	Amount paid up.	
. 15	51	1,450	73,551	75,000								1,450	725 – –	
												1,450	1,087 10 –	

270

Jan. 15*th*, 19—

. 15	51	5,000	75,001	80,000								5,000	2,500 – –	
												5,000	3,750 – –	
						19—								
						Nov. 15	31	1,000	75,001	76,000	750 – –	4,000	3,000 – –	
						Dec. 19	31	1,000	76,001	77,000	750 – –	3,000	2,250 – –	

271

Nov. 15*th*, 19—

. 15	31	1,000	75,001	76,000	750 – –							1,000	750 – –	

272

Dec. 19*th*, 19—

19	31	1,000	76,001	77,000	750 – –							1,000	750 – –	

REGISTER OF MORTGAGES AND CHARGES

Nature and Use.—This is one of the statutory books. In it must be entered all mortgages and charges specifically affecting the property of the Company, giving in each case a short description of the property mortgaged or charged, the amount of the mortgage or charge, and (except in the case of securities to bearer) the names of the mortgagees or persons entitled thereto. This Register, and also the copies of instruments creating any mortgage or charge requiring registration under the Companies (Consolidation) Act, 1908, must be open at all reasonable times to the inspection of any creditor or member of the company without fee, and of any other person on payment of a fee not exceeding 1s. The book is ruled in tabular form, and the following is a specimen ruling :—

REGISTER OF MORTGAGES AND CHARGES

No. of Mortgage.	Date Mortgage created.	Mortgagee's		Amount of Mortgage or Charge.			Particulars of Property mortgaged or charged.	Rate of Interest.	Remarks.
		Name.	Address.	£	s.	d.			

DEBENTURE APPLICATION AND ALLOTMENT BOOK

Nature and Use.—This is a book ruled in tabular form to record the names, addresses, and occupations of all applicants for debentures, the number of debentures applied for, and the amount deposited with such applications. Additional columns are also provided to record the number of debentures actually allotted, their distinctive numbers, the balance due on allotment, and the amounts subsequently received thereon.

Procedure in Connection with Applications and Allotments of Debentures.—The procedure in connection with applications for debentures and allotments thereof is very similar to that adopted with respect to shares. A printed form is filled in, and the requisite money forwarded to the company's bankers. Allotments are then made, and the further sums payable duly remitted to the company's bankers. If any applications are not accepted, the deposit money is returned in full. Certificates are not made out, however, for the total number of debentures held by each person, because each debenture is represented by a separate bond ; so that if an applicant

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

FORM OF APPLICATION FOR FIRST MORTGAGE DEBENTURES.

Issued in 100 Bonds of £100 each, carrying Interest at the rate of £5 per cent. per annum.

To the Directors of the WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED.

Gentlemen,

Having paid to the Company's Bankers the sum of £_____, being a deposit of Fifty per cent. on £_____ First Mortgage Debentures in the above-named Company, I request you to allot me such Debentures upon the terms of the Company's Prospectus, and I agree to accept the same, or any smaller amount that may be allotted to me, and I agree to pay the further instalments as provided by and at the dates specified in the said Prospectus, and I authorise you to register me as the holder of the said Debentures.

*Signature*_____

*Name in full*_____

(State whether "Mr.," "Mrs.," or "Miss," and Title, if any.)

Address in full _____

_____

_____

Occupation _____

*Date*_____, 19__

All Cheques to be made payable to the Company's Bankers. A separate Cheque must accompany each separate Application.

This sheet should be forwarded ENTIRE to the Company's Bankers, THE METRO BANK, LIMITED, together with Cheque.

. . . . . .

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Acts, 1908 to 1917.)

BANKERS' RECEIPT.

RECEIVED this _____day of_____, 19__, from _____ for the credit of the WALDRON MANUFACTURING AND TRADING CO., LTD., the sum of £_____, being a deposit of Fifty per cent. on £_____ First Mortgage Debentures in the above-named Company.

For the METRO BANK, LIMITED

_____ *Stamp.* _____

£ : :

Cashier.

This Receipt, when returned from the Bankers, to be preserved by the Applicant for exchange in due course for Debentures.

receives an allotment of 20 debentures, he will eventually receive 20 separate bonds. If the debentures are payable by more than two instalments (application and allotment), the conditions of issue may provide that the debenture bond shall not be issued until fully paid up. Scrip certificates (see page 502) will then be made out in the meantime, in the same way as is done for shares issued under similar conditions.

Example.—The Waldron Manufacturing and Trading Co., Ltd., having power in its Memorandum to issue £10,000 5% Debentures in bonds of £100 each, offered the same for public subscription on February 1st, payable 50% on application and 50% on allotment.

Applications were received, and allotments made, as under :—

		No. of Debentures	
		Applied for.	Allotted.
Feb. 16.	Robert O. Stevenson, Solicitor, 65 Seaforth Road, Ealing, London, W.	25	20
,,	Philip J. Clarke, Cashier, 29 Winter Street, Salisbury	8	5
,,	John Andrews, Accountant, 78 Burdett Road, Andover	5	nil
17.	Arthur Beazley, Banker, 11 Pellett Grove, Bristol	8	5
,,	Frederick Norman, Merchant, 66 Queen's Avenue, Swindon	10	10
,	Maurice Baxter, Engineer, 45 Aubert Park, Winchester	10	10
19.	Charles A. Pitley, Printer, 72 Bassett Square, Reading	8	5
,,	David Headlam, Gentleman, 116 Sidney Road, W. Croydon	25	20
20.	Henry Williams, Stockbroker, 78 Walm Lane, Oxford	5	nil
,,	George I. Stoddart, Accountant, 5 Woodquest Street, Leytonstone	8	5
21.	Alfred K. Foster, Tailor, 237 Shirley Road, Yeovil	10	10
,,	Lionel C. Reeve, Actuary, 111 Francis Street, Tooting, London, S.W.	10	10

Letters of Regret, Nos. 1 and 2, were sent to Andrews and Williams,

101 DEBENTURE APPLICATION AND

No. of Application	Name.	Address.	Occupation.	No. of Debentures applied for.	Amount paid on Application.
1	*Stevenson, Robert O.*	65 *Seaforth Road, Ealing, W.*	*Solicitor*	25	1,250 – –
2	*Clarke, Philip J.*	29 *Winter Street, Salisbury*	*Cashier*	8	400 – –
3	*Andrews, John*	78 *Burdett Road, Andover*	*Accountant*	5	250 – –
4	*Beazley, Arthur*	11 *Pellett Grove, Bristol*	*Banker*	8	400 – –
5	*Norman, Frederick*	66 *Queen's Avenue, Swindon*	*Merchant*	10	500 – –
6	*Baxter, Maurice*	45 *Aubert Park, Winchester*	*Engineer*	10	500 – –
7	*Pitley, Charles A.*	72 *Bassett Square, Reading*	*Printer*	8	400 – –
8	*Headlam, David*	116 *Sidney Road, W. Croydon*	*Gentleman*	25	1,250 – –
9	*Williams, Henry*	78 *Walm Lane, Oxford*	*Stockbroker*	5	250 – –
10	*Stoddart, George I.*	5 *Woodquest St., Leytonstone*	*Accountant*	8	400 – –
11	*Foster, Alfred K.*	237 *Shirley Road, Yeovil*	*Tailor*	10	500 – –
12	*Reeve, Lionel C.*	111 *Francis St., Tooting, S.W.*	*Actuary*	10	500 – –
				132	6,600 – –

and their deposits returned in full. Allotments were made on February 22nd in order of application, the debentures being numbered from 001 upwards. The moneys due on allotment were payable by March 1st, on which date they were duly received. Write up the Application and Allotments Book and subsidiary Cash Book.

111 DEBENTURE HOLDERS CASH BOOK 111

Dr. Date.	Receipts.	D.L. Folio.	Amount.	Date.	Payments.	D.L. Folio.	Amount.
19—				19—			
Feb. 16	To Application A/c—			Feb. 22	By Application A/c—		
„	Stevenson, R. O.	301	1,250 — —	„	Andrews, J.	c.	250 — —
„	Clarke, P. J.	302	400 — —	„	Williams, H.	c.	250 — —
„	Andrews, J.	c.	250 — —	Mar. 1	By Transfer to General Cash Book		10,000 — —
17	Beazley, A.	303	400 — —				
„	Norman, F.	304	500 — —				
„	Baxter, M.	305	500 — —				
19	Pitley, C. A.	304	400 — —				
„	Headlam, D.	307	1,250 — —				
20	Williams, H.	c.	250 — —				
„	Stoddart, G. I.	308	400 — —				
21	Foster, A. K.	309	500 — —				
„	Reeve, L. C.	310	500 — —				
Mar. 1	To Allotment A/c—						
	Stevenson, R. O.	301	750 — —				
	Clarke, P. J.	302	100 — —				
	Beazley, A.	303	100 — —				
	Norman, F.	304	500 — —				
	Baxter, M.	305	500 — —				
	Pitley, C. A.	304	100 — —				
	Headlam, D.	307	750 — —				
	Stoddart, G. I.	308	100 — —				
	Foster, A. K.	309	500 — —				
	Reeve, L. C.	310	500 — —				
			10,500 — —				10,500 — —

ALLOTMENTS BOOK 101

No. of Debentures allotted.	Distinctive Numbers. From.	To.	Debenture Ledger Folio.	Amount due on Application and Allotment.	Balance due on Allotment.	Cash paid on Allotment.	Cash Returned.	Remarks.
20	001	020	301	2,000 — —	750 — —	750 — —		
5	021	025	302	500 — —	100 — —	100 — —		
—	—	—	—	— — —	— — —	— — —	250 — —	*Letter of Regret, No. 1*
5	026	030	303	500 — —	100 — —	100 — —		
10	031	040	304	1,000 — —	500 — —	500 — —		
10	041	050	305	1,000 — —	500 — —	500 — —		
5	051	055	306	500 — —	100 — —	100 — —		
20	056	075	307	2,000 — —	750 — —	750 — —		
—	—	—	—	— — —	— — —	— — —	250 — —	*Letter of Regret, No. 2*
5	076	080	308	500 — —	100 — —	100 — —		
10	081	090	309	1,000 — —	500 — —	500 — —		
10	091	100	310	1,000 — —	500 — —	500 — —		
100				10,000 — —	3,900 — —	3,900 — —	500 — —	

DEBENTURE BOND.

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

(Incorporated under the Companies Act

Registered Office :

ISSUE OF £10,000 FIRST MORTGAGE DEBENTURES, in 100 Bonds of £100 each, bearing interest at the rate of £5 per cent. per annum.

No. 056. **DEBENTURE.** £100

1. The WALDRON MANUFACTURING AND TRADING COMPANY, LIMITED (hereinafter called "the Company"), hereby covenants to pay to the Registered Holder, on presentation of this Debenture, on the 1st day of July, 19__, or at such earlier date as the principal moneys hereby secured shall become payable, at the Registered Office of the Company or at their Bankers, the sum of One Hundred Pounds.

2. The Company will in the meantime pay to the Registered Holder for the time being Interest on the said £100 at the rate of £5 per cent. per annum by equal half-yearly payments on the 30th of June and the 31st December in each year, the first of such payments to be made on the 31st December, 19__.

3. The Company hereby charges, by way of floating security, all its real and personal property (present and future), its stock-in trade, goodwill, and all the undertaking, also its uncalled Capital with the payment of the principal and interest.

4. The principal moneys hereby secured shall immediately become payable if the Company makes default for a period of one calender month in the payment of any interest hereby secured.

5. This Debenture is one of a series of 100 ranking equally, and is issued subject to the conditions indorsed hereon, which are deemed to be part of it.

GIVEN UNDER THE COMMON SEAL OF THE COMPANY

this_____day of_____, 19__.

_____ } *Directors.*

_____

Seal.

_____

Secretary.

DEBENTURE CALL BOOK

Nature and Use.—This is a book ruled in tabular form to record the names and addresses of the debenture holders, the number of debentures held, the amount due from each debenture holder in respect of the call, and also the amounts actually paid. The following is a specimen ruling :—

Call of £ ..... per Debenture, made ..... payable by .....

Deb. Led. Folio.	Name.	Address.	No. of Debs. held.	Amount due on Call.	Amount paid on Call.	Remarks.

Debentures are more commonly made payable on application and allotment. When calls are made, however, the procedure is similar to that in connection with shares.

DEBENTURE TRANSFER REGISTER

Nature and Use.—This is a book ruled in tabular form similar to the Transfer Register for shares. It records the names, addresses, and occupations of both transferor and transferee, the number of debentures transferred, their distinctive numbers, the amount paid up thereon, and the date the transfer was registered. The procedure in connection with the transfer of debentures is almost identical with that in respect of shares.

Example.—The following transfers of Debentures were made, approved, and duly registered in the books of the Waldron Manufacturing and Trading Co., Ltd. :—

April 2nd, 6 debentures (001—006) from R. O. Stevenson to A. Beazley ; No. of transfer deed, No. 1.

April 14th, 5 debentures (031—035) from F. Norman to C. A. Pitley.

April 26th, 3 debentures (041—043) from M. Baxter to G. I. Stoddart.

May 15th, 2 debentures (007—008) from R. O. Stevenson to L. C. Reeve.

May 27th, 10 debentures (056—065) from D. Headlam to William Marshman, Barrister, 7 Union Road, Wells.

June 20th, 2 debentures (021—022) from P. J. Clarke to James T. Howard, Schoolmaster, 81 Penton Street, Bath.

Write up the Company's Debenture Transfer Register.

131 DEBENTURE TRANS

No. of Transfer.	Date Transfer Registered.	Transferor's					
		Deb. Led. fol.	Name.	Address.	Occupation.	Deb. Led. fol.	Name.
	19—						
1	April 2	301	Stevenson, R. O.	65 Seaforth Rd., Ealing	Solicitor	303	Beazley, A.
2	„ 14	304	Norman, F.	66 Queen's Avenue, Swindon	Merchant	306	Pitley, C. A.
3	„ 26	305	Baxter, M.	45 Aubert Park, Winchester	Engineer	308	Stoddart, G. I.
4	May 15	301	Stevenson, R. O.	65 Seaforth Road, Ealing	Solicitor	310	Reeve, L. C.
5	„ 27	307	Headlam, D.	116 Sidney Rd., W. Croydon	Gentleman	311	Marshman, William.
6	June 20	302	Clarke, P. J.	29 Winter Street, Salisbury	Cashier	312	Howard, James T.

REGISTER OF DEBENTURE HOLDERS

Nature and Use.—Though not specifically mentioned in the Act, it is necessary, in practice, to keep such a register. It is ruled in tabular form, similar to the Register of Shareholders, and records the names, addresses, and the occupations of the debenture holders, the number of debentures held, their distinguishing numbers, and the amounts paid up on each debenture. Where the debentures are fully paid up, only a statistical record will be kept, but where the debentures are not fully paid up, a Cash Account will be kept in addition to the statistical record.

Register to be Open to Inspection.—By section 102 of the Companies (Consolidation) Act, 1908, every Register of Debenture Holders of a company, except when closed in accordance with the Articles (not exceeding thirty days in any year), must be open to the inspection of the registered holder of any such debentures, and of any holder of shares in the company, for not less than two hours in each day. Every such holder may, on payment of the prescribed fee, require a copy of the Register or any part of it, or a copy of any trust deed for securing any issue of debentures.

Posting the Debenture Register.—The Register of Debenture Holders is entered up from the Debenture Application and Allotment Book, Debenture Call Book (if any), the subsidiary Debenture Cash Books, and from the Register of Debenture Transfers. The Balance Column will show the number of debentures held at any given date, and the amounts paid up thereon.

Example.—From the particulars given in the Application and Allotments Book, subsidiary Cash Book, and Register of Transfers, in the previous examples, write up the company's Register of Debenture Holders. (See pages 528-530.)

FER REGISTER 131

Transferee's Address.	Occupation.	Debentures Transferred. No.	Distinctive Numbers. From.	To.	Amount paid up.	Remarks.
11 *Pellett Grove, Bristol*	*Banker*	6	001	006	600 – –	
72 *Bassett Sq., Reading*	*Printer*	5	031	035	500 – –	
Woodquest St., Leytonstone	*Accountant*	3	041	043	300 – –	
111 *Francis St., Tooting, S.W.*	*Actuary*	2	007	008	200	
7 *Union Road, Wells*	*Barrister*	10	056	065	1,000 – –	
81 *Penton Street, Bath*	*Schoolmaster*	2	021	022	200 – –	

REGISTER OF DEBENTURE STOCKHOLDERS

Where debenture stock has been issued, or where debentures have been converted into stock, a register of the stockholders will be required. A specimen ruling is shown on page 531.

DEBENTURE INTEREST BOOK

Nature and Use.—This is a book ruled in tabular form, which gives particulars each half-year of the names of the debenture holders, the amount of debentures held, the gross amount of interest accrued due thereon, the tax deductible, and the net interest payable to the debenture holders.

Example.—From the particulars recorded in the Register of Debenture Holders, assuming there to be no further change, write up the Debenture Interest Book for the half-year ended 31st Dec.

DEBENTURE INTEREST BOOK

Deb. Led. fol.	Name.	Amount of Debentures held.	Half-Year's Interest at 5 %.	Amount of Tax at 1s. 3d.	Net Interest.	Remarks.
301	Stevenson, R. O.	1,200 – –	30 – –	1 17 6	28 2 6	
302	Clarke, P. J.	300 – –	7 10 –	9 5	7 – 7	
303	Beazley, A.	1,100 – –	27 10 –	1 14 4	25 15 8	
304	Norman, F.	500 – –	12 10 –	15 8	11 14 4	
305	Baxter M.	700 – –	17 10 –	1 1 10	16 8 2	
306	Pitley, C. A.	1,000 – –	25 – –	1 11 3	23 8 9	
307	Headlam, D.	1,000 – –	25 – –	1 11 3	23 8 9	
308	Stoddart, G. I.	800 – –	20 – –	1 5 –	18 15 –	
309	Foster, A. K.	1,000 – –	25 – –	1 11 3	23 8 9	
310	Reeve, L. C.	1,200 – –	30 – –	1 17 6	28 2 6	
311	Marshman, W.	1,000 – –	25 – –	1 11 3	23 8 9	
312	Howard, J. T.	200 – –	5 – –	6 3	4 13 9	
		10,000 – –	250 – –	15 12 6	234 7 6	

301 REGISTER OF DEBENTURE HOLDERS

Name: *Stevenson, Robert O.* Occupation: *Solicito*
Address: 65 *Seaforth Road, Ealing, London, W.*

Debentures Acquired.								Debentures Transferred or Redeemed.								Balance	
Date.	Folio.	No. of Debs.	Distinctive Numbers. From.	To.	Amount paid up.			Date.	Folio.	No. of Debs.	Distinctive Numbers. From.	To.	Amount paid up.			No. of Debs.	Amo paid
19—																	
	C.B.																
Feb. 16	111				1,250	–	–										
	A.B.																
Mar. 1	101	20	001	020	750	–	–									20	2,000
								19—									
									T.R.								
								Apr. 2	131	6	001	006	600	–	–	14	1,400
									T.R.								
								May 15	131	2	007	008	200	–	–	12	1,200

302

Clarke, Philip J. *Cashier.*
29 Winter Street, Salisbury

19—																	
	C.B.																
Feb. 16	111				400	–	–										
	A.B.																
Mar. 1	101	5	021	025	100	–	–									5	500
								19—									
									T.R.								
								June 20	131	2	021	022	200	–	–	3	300

303

Beazley, Arthur *Banke*
11 Pellett Grove, Bristol

19—																	
	C.B.																
Feb. 17	111				400	–	–										
	A.B.																
Mar. 1	101	5	026	030	100	–	–									5	500
	T.R.																
Apr. 2	131	6	001	006	600	–	–									11	1,100

304

Norman, Frederick *Merchan*
66 Queen's Avenue, Swindon

19—																	
	C.B.																
Feb. 17	111				500	–	–										
	A.B.																
Mar. 1	101	10	031	040	500	–	–									10	1,000
								19—									
									T.R.								
								Apr. 14	131	5	031	035	500	–	–	5	500

REGISTER OF DEBENTURE HOLDERS

305

: *Baxter, Maurice* Occupation: *Engineer.*
ess: 45 *Aubert Park, Winchester*

Debentures Acquired.						Debentures Transferred or Redeemed.						Balance.	
Folio.	No. of Debs.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.		Date.	Folio.	No. of Debs.	Distinctive Numbers. From.	Distinctive Numbers. To.	Amount paid up.	No. of Debs.	Amount paid up.
C.B. 111 A.B. 101	10	01	050	500 – – 500 – –		19— Apr. 26	T.R. 131	3	041	043	300 – –	10 7	1,000 – – 700 – –

306

Pitley, Charles A. *Printer.*
72 Bassett Square, Reading

C.B. 111 A.B. 101	5	051	055	400 – – 100 – –								5	500 – –
T R 131	5	031	035	500 – –								10	1,000 – –

307

Headlam, David *Gentleman.*
116 Sidney Road, West Croydon

C B 111 A.B. 101	20	056	075	1,250 – – 750 – –		19— May 27	T.R 131	10	056	065	1000 – –	20 10	2,000 – – 1,000 – –

308

Stoddart, George I. *Accountant.*
Woodquest Street, Leytonstone

C B 111 A B 101	5	076	080	400 – – 100 – –								5	500 – –
T R 131	3	041	043	300 – –								8	800 – –

309 REGISTER OF DEBENTURE HOLDERS

Name: *Foster, Alfred K.* Occupation: *Tailor*
Address: 237 *Shirley Road, Yeovil*

Debentures Acquired.						Debentures Transferred or Redeemed.						Balance	
Date	Folio.	No of Debs.	Distinctive Numbers. From.	To.	Amount paid up.	Date.	Folio.	No of Debs.	Distinctive Numbers From.	To.	Amount paid up.	No. of Debs.	Amou paid
19—													
	C.B.												
Feb. 21	111				500 — —								
	A.B.												
Mar. 1	101	10	081	090	500 — —							10	1,000

310

Reeve, Lionel C. *Actuary.*
111 *Francis Street, Tooting, London, S.W.*

19—													
	C.B.												
Feb. 21	111				500 — —								
	A.B.												
Mar. 1	101	10	091	100	500 — —							10	1,000
	T.R.												
May 15	131	2	007	008	200 — —							12	1,200

311

Marshman, William *Barrister.*
7 *Union Road, Wells*

19—													
	T.R.												
May 27	131	10	056	065	1,000 — —							10	1,000

312

Howard, James T. *Schoolmas*
81 *Penton Street, Bath*

19—													
	T.R.												
June 20	131	2	021	022	200 — —							2	200

REGISTER OF DEBENTURE STOCKHOLDERS

Name.....

Address.....

Occupation.....

Debenture Stock Acquired.						Debenture Stock Transferred or Redeemed.					Balance.			
Date.[1]	Folio.[2]	No. of Certificate.	Amount.			Transferor's Folio.	Date.[3]	Folio.[4]	Amount.			Transferee's Folio.	Date.	Amount.		

[1] Of Allotment, or of Registration of Transfer (if so acquired).
[2] Of Debenture Stock Application and Allotment Book, or of Register of Transfers of Debenture Stock.
[3] Of Registration of Transfer.
[4] Of Register of Transfers of Debenture Stock, or of Cash Book.

DIVIDEND BOOK

Nature and Use.—This is a book, ruled in tabular form, which records at balancing time the names of the shareholders, the amount paid up on the shares held by each individual, the gross amount of dividend due, the amount of tax (if any) deductible, and the net amount of dividend payable to each shareholder. Separate books are kept for the dividends on different classes of shares, Ordinary, Preference, Deferred, etc.

Example 1.—The directors of the Waldron Manufacturing and Trading Co., Ltd., resolved to pay, free of tax, a dividend of 10% on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. From the particulars furnished in the Register of Ordinary Shares, write up the Ordinary Share Dividend Book.

ORDINARY SHARE DIVIDEND BOOK

31ST DEC., 19—

O.S.L. folio.	Name.	Amount paid up on Shares.	Amount of Dividend at 10 %.	Amount of Tax at	Net Dividend.	Remarks.
101	Barker, M. B.	750 – –	75 – –			Free of tax
102	Clarke, E.	15 –	1 6			,,
103	Dalton, J. F.	150 15 –	15 1 6			,,
104	Evans, Fred	15 –	1 6			,,
105	Mensper, I. L.	375 15 –	37 11 6			,,
106	Prince, E. O.	375 15 –	37 11 6			,,
107	Retrop, T. P.	2,621 5 –	262 2 6			,,
108	Fairleaf Frank	15,000 – –	1,500 – –			,,
109	Goode, Ellen	5,000 – –	500 – –			,,
110	Longley, J. F.	2,475 – –	247 10 –			,,
111	Johnson, H. A.	375 – –	37 10 –			,,
112	Thorpe, F. B.	375 – –	37 10 –			,,
		27,500 – –	2,750 – –			

Example 2.—The directors of the Waldron Manufacturing and Trading Co., Ltd., resolved to pay less tax at 6s. 0d., the 6% dividend on the Preference Shares for the year ending 31st December, according to the amounts paid up thereon. From the particulars recorded in the Register of Preference Shares, write up the Preference Share Dividend Book. (See next page.)

PREFERENCE SHARE DIVIDEND BOOK

31ST DEC., 19—

P.S.L. folio.	Name.	Amount paid up on Shares.	Amount of Dividend at 6%.	Amount of Tax at 6s.	Net Dividend.	Remarks.
261	Holloway, P. F.	2,250 — —	135 — —	40 10 —	94 10 —	
262	Cooper, A. O.	3,375 — —	202 10 —	60 15 —	141 15 —	
264	Newton, J. F.	2,250 — —	135 — —	40 10 —	94 10 —	
265	Archer, F.	3,975 — —	238 10 —	71 11 —	166 19 —	
266	Greale, E. P.	1,500 — —	90 — —	27 — —	63 — —	
267	Rawlings, G.	1,425 — —	85 10 —	25 13 —	59 17 —	
268	Brooke, S. L.	1,837 10 —	110 5 —	33 1 6	77 3 6	
269	Lipton, Rufus	1,087 10 —	65 5 —	19 11 6	45 13 6	
270	Penley, Claude N.	2,250 — —	135 — —	40 10 —	94 10 —	
271	Truefitt, P.	750 — —	45 — —	13 10 —	31 10 —	
272	Vickers, O.	750 — —	45 — —	13 10 0	31 10 —	
		21,450 — —	1,287 — —	386 2 —	900 18 —	

REGISTER OF DIRECTORS OR MANAGERS

Nature and Use.—This is one of the statutory books. The Companies (Consolidation) Act, 1908, requires every company to keep at its registered office a register containing the names, addresses, and occupations of its directors or managers, and to send to the registrar of companies a copy thereof, and from time to time to notify to the registrar any change among its directors or managers.

By the Companies (Particulars as to Directors) Act, 1917, the Register must now contain the particulars shown in the specimen ruling given below.

REGISTER OF DIRECTORS OR MANAGERS

The present Christian Name or Names and Surname.	Any former Christian Name or Names or Surname.	Nationality.	Nationality of Origin (if other than the present Nationality).	Usual Residence.	Occupations.

MINUTE BOOK

Nature and Use.—This is another of the statutory books. The Companies (Consolidation) Act, 1908, enacts that every company must cause minutes of all proceedings of general meetings and (where there are directors or managers) of its directors and managers to be entered in books kept for that purpose. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were had, or by the chairman of the next succeeding meeting, is evidence of the proceedings.

In most companies two books are kept: one, called the Shareholders' or General Minute Book, to record notes of the proceedings of the members in general meetings; and the other, called the Directors' Minute Book, to record notes of the proceedings of board meetings. The books should preferably be provided with an alphabetical index, so that minutes may be indexed under suitable headings in order to facilitate reference.

SHARE WARRANT REGISTER

Definition.—This is a register giving particulars of the share warrants which have been issued by the Company. It is ruled in tabular form as shown on page 535.

Share Warrant.—This is a document under the seal of the Company, which entitles the holder of it to the shares or stock specified therein. It is subject to a stamp duty equal to three times the amount of the *ad valorem* duty chargeable on a deed transferring shares of the same nominal value, *i.e.*, 60s. per cent. It is transferable by mere delivery; and this fact makes it a very convenient instrument, particularly in the case of companies having foreign shareholders. The following is a specimen :—

No._____

ZENO TRADING COMPANY, LIMITED.

(Incorporated under the Companies Acts, 1908 to 1917.)

CAPITAL £100,000.

50,000 ORDINARY SHARES OF £1 EACH.
50,000 6% PREFERENCE SHARES OF £1 EACH.

Stamp.

SHARE WARRANT.

THIS IS TO CERTIFY that the Bearer of this Warrant is the proprietor of_____fully paid-up 6% Preference Shares of £1 each, numbered _____to_____inclusive in the ZENO TRADING COMPANY, LIMITED, subject to the provisions of the Memorandum and Articles of Association of the Company.

GIVEN UNDER THE COMMON SEAL of the Company this_____ day of_____19____

_____
_____ } *Directors.*

Seal

_____
Secretary.

SHARE WARRANT REGISTER

Warrants Issued.									Warrants Surrendered.				
Date.	No. of Warrant.	To Whom.	Contents of Warrant.					Folio of Share or Stock Ledger.	Date.	No. of Warrant.	By Whom.	Folio of Share or Stock Ledger.	Remarks.
			Shares.			Stock.							
			No. of Shares.	Numbers.		Amount.							
				From.	To.	£ s.	d.						

The bearer of a share warrant is, subject to the Articles of the Company, entitled on surrendering it for cancellation, to have his name entered as a member in the Register of Members. The date of such surrender must also be entered in the Register as if it were the date at which a person ceased to be a member.

Statutory Provisions.—Section 37 of the Companies (Consolidation) Act, 1908, enacts as follows :—

(1) A company limited by shares, if so authorised by its articles, may, with respect to any fully paid up shares, or to stock, issue under its common seal a warrant stating that the bearer of the warrant is entitled to the shares or stock therein specified, and may provide, by coupons or otherwise, for the payment of the future dividends on the shares or stock included in the warrant, in this Act termed a share warrant.

(2) A share warrant shall entitle the bearer thereof to the shares or stock therein specified, and the shares or stock may be transferred by delivery of the warrant.

(3) The bearer of a share warrant shall, subject to the articles of the company, be entitled, on surrendering it for cancellation, to have his name entered as a member in the Register of Members ; and the company shall be responsible for any loss incurred by any person by reason of the company entering in its Register the name of a bearer of a share warrant in respect of the shares or stock therein specified, without the warrant being surrendered and cancelled.

(4) The bearer of a share warrant may, if the articles of the company so provide, be deemed to be a member of the company within the meaning of this Act, either to the full extent or for any purposes defined in the articles ; except that he shall not be qualified in respect of the shares or stock specified in the warrant for being a director or manager of the company, in cases where such a qualification is required by the articles.

(5) On the issue of a share warrant the company shall strike out of its Register of Members the name of the member then entered therein as holding the shares or stock specified in the warrant as if he had ceased to be a member, and shall enter in the Register the following particulars, namely :—

(*a*) The fact of the issue of the warrant.

(*b*) A statement of the shares or stock included in the warrant, distinguishing each share by its number, and

(*c*) The date of the issue of the warrant.

(6) Until the warrant is surrendered, the above particulars shall be deemed to be the particulars required by this Act to be entered in the Register of Members ; and, on the surrender, the date of the surrender must be entered as if it were the date at which a person ceased to be a member.

STATUTORY REPORT

Particulars of this will be found on page 374, and on the next page is a specimen report adapted to the particulars given in the previous exercises in connection with allotment of shares and debentures.

REGISTER OF PROBATES AND LETTERS OF ADMINISTRATION

Probate.—The Probate is the official evidence that the person named therein is the executor of a deceased shareholder, and

WALDRON MANUFACTURING AND TRADING COMPANY, Limited.

STATUTORY REPORT OF THE DIRECTORS.

PURSUANT to Section 65 of the Companies Consolidation Act, 1908, your Directors beg to report as follows:—

(*a*) The total number of Shares allotted is 60,000, of which 20,000 are allotted as fully paid up, in part consideration of the goodwill and assets of the business, and upon each of the remaining Shares the sum of 10s. 0d. has been paid in Cash.

(*b*) The total amount of cash received by the Company in respect of the Shares issued wholly for Cash is £20,000.

(*c*) The Receipts and Payments of the Company on Capital Account to 20th March, 19—, are as follows:—

Particulars of Receipts.				Particulars of Payments.			
To Application and Allotment instalments—				By Vendor (part payment of purchase price)	10,000	–	–
Ordinary Shares	5,000	–	–	„ Preliminary Expenses	3,000	–	–
Preference Shares	15,000	–	–	„ Printing and Stationery	120	–	–
Debentures	10,000	–	–				
	30,000	–	–		13,120	–	–

The Preliminary Expenses of the Company are estimated at £4,000.

(*d*) The following are the Names, Addresses, and Descriptions of the Directors, Auditors, Manager, and Secretary of the Company:—

Directors.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.
THOMAS RETROP, Solicitor, 2 Lucas Street, Bexley.
COOPER ALBERT O., Gentleman, The Cedars, Farnham.
JAMES F. LONGLEY, Gentleman, 6 Park Drive, Bromfield.

Auditors.

FREDERICK SHARPE & Co., Chartered Accountants, 67–69 Temple Avenue, Holborn, London, E.C.

Manager.

FRANK T. WALDRON, Merchant, 1 Penley Mansions, Sidcup.

Secretary.

THOMAS DUNSCOMBE MATTHEWS, Chartered Secretary, 27 Finsbury Park Road, London, N.

(*e*) Particulars of Contract, the modification of which is to be submitted to the meeting for its approval together with the particulars of the modification or proposed modification:—

We hereby certify that this Report is correct.

FRANK T. WALDRON,
THOMAS RETROP, } *Directors.*

Auditors' Report.

We hereby certify that so much of this Report as relates to the Shares and Debentures allotted by the Company and to the Cash received in respect of such Shares and Debentures, and to the Receipts and Payments of the Company on Capital Account is correct.

F. SHARPE & Co.,
Chartered Accountants, } *Auditors.*

Dated this 20th day of March, 19—

Letters of Administration authorise the person named therein to administer the estate of a shareholder who has died intestate. Both documents bear the seal of the Court of Probate.

When a shareholder dies leaving an executor, or if he dies intestate and the Court appoints an Administrator, the Probate or Letters of Administration are lodged at the company's office by the executor or administrator. Such person, having thus become the legal personal representative, has then two alternatives :—

(1) He may (unless the Articles give the company the right to insist upon a personal representative becoming registered as a member or selling the shares) content himself with simply registering his right to deal with the deceased shareholder's stocks and shares in the company.

(2) He may, when lodging the probate or letters of administration, ask to be registered as a member.

If the first course is adopted the secretary of the company makes a memorandum in the Share Register against the deceased shareholder's name,

"Probate or / Letters of administration granted on.....

to.....of, etc., Executor or / Administrator.

Date....."

He makes a similar memorandum on the back of the share certificate and returns it indorsed to the executor or administrator. The advantages of this procedure to the executor are :—

(*a*) He is only liable to the extent of the estate for any calls on the shares. (*b*) He can transfer the shares by virtue of section 29 of the Companies (Consolidation) Act.

If the second alternative is adopted by the executor and he desires to become registered as a member, the secretary closes the deceased shareholder's account in the Share Register and opens a new account in the name of the executor, who becomes thereby responsible *personally* for any uncalled liability on the shares. The procedure necessary depends on the Articles of Association. Sometimes a "Letter of Request" is all that is required, but in many cases the directors insist upon a transfer from the personal representative *as executor* to the personal representative *personally*.

In large companies a Register is frequently kept, giving the deceased shareholders' names and folios in the Share Ledger, the names and addresses of the executors or administrators, date of death, date of probate, date probate was registered, and any further particulars that may be thought desirable.

ANNUAL LIST AND SUMMARY OF CAPITAL AND SHARES

Statutory Requirements.—Section 26 of the Companies (Consolidation) Act, 1908, enacts as follows :—

(1) Every company having a share capital shall once at least in every year make a list of all persons who, on the fourteenth day after the first or only ordinary general meeting in the year, are members of the company, and of all persons who have ceased to be members since the date of the last return or (in the case of the first return) of the incorporation of the company.

(2) The list must state the names, addresses, and occupations of all the past and present members therein mentioned, and the number of shares held by each of the existing members at the date of the return, specifying shares transferred since the date of the last return or (in the case of the first return) of the incorporation of the company by persons who are still members and have ceased to be members respectively and the dates of registration of the transfers, and must contain a summary distinguishing between shares issued for cash and shares issued as fully or partly paid-up otherwise than in cash, and specifying the following particulars :—

(*a*) The amount of the share capital of the company, and the number of the shares into which it is divided ;

(*b*) The number of shares taken from the commencement of the company up to the date of the return ;

(*c*) The amount called up on each share ;

(*d*) The total amount of calls received ;

(*e*) The total amount of calls unpaid ;

(*f*) The total amount of the sums (if any) paid by way of commission in respect of any shares or debentures, or allowed by way of discount in respect of any debentures, since the date of the last return ;

(*g*) The total number of shares forfeited ;

(*h*) The total amount of shares or stock for which share warrants are outstanding at the date of the return ;

(*i*) The total amount of share warrants issued and surrendered respectively since the date of the last return ;

(*k*) The number of shares or amount of stock comprised in each share warrant ;

[1] (*l*) The names and addresses of the persons who at the date of the return are the directors of the company, or occupy the position of directors, by whatever name called ; and

(*m*) The total amount of debt due from the company in respect of all mortgages and charges which are required (or, in the case of a company registered in Scotland, which, if the company had been registered in England, would be required) to be registered with the registrar of companies under this Act, or which would have been required so to be registered if created after the first day of July, 1908.

(3) The summary must also (except where the company is a private company) include a statement, made up to such date as may be specified in the statement, in the form of a Balance Sheet, audited by the company's auditors, and containing a summary of its share capital, its liabilities, and its assets, giving such particulars as will disclose the general nature of those liabilities and assets, and how the values of the fixed assets have been arrived at, but the Balance Sheet need not include a statement of Profit and Loss.

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[1] **Note.**—By the Companies (Particulars as to Directors) Act, 1917, additional details regarding directors must now be furnished. (See p. 544.)

(4) The above list and summary must be contained in a separate part of the Register of Members, and must be completed within seven days after the fourteenth day aforesaid, and the company must forthwith forward to the registrar of companies a copy signed by the manager or by the secretary of the company.

(5) If a company makes default in complying with the requirements of this section, it shall be liable to a fine not exceeding £5 for every day during which the default continues and every director and manager of the company who knowingly and wilfully authorises or permits the default shall be liable to the like penalty.

Statement in form of a Balance Sheet.—The "Statement in the form of a Balance Sheet" is not necessarily a copy of the Balance Sheet issued, but there is a limit to the extent to which the items may be summarised. In *Galloway* v. *Schill, Seebohm & Co., Ltd.*, the defendants in their Return stated all their fixed assets in one line and sum, but were ordered by the Court to make the Return in such a manner as to show the value of their fixed assets under three separate heads: (*a*) buildings, (*b*) goodwill and trade marks, (*c*) machinery, fixtures, and furniture.

Example.—From the particulars recorded in the Ordinary and Preference Share Ledgers, Transfer Registers, Register of Directors, etc., prepare the company's Annual List and Summary, and draw up a *pro forma* Statement in Form of Balance Sheet. (*See* pp. 541–5.)

QUESTIONS ON CHAPTER XIV

A

1. What books is a joint stock company compelled by law to keep?
2. What statistical books are usually kept by a joint stock company?
3. Explain the nature and use of an Application and Allotments Book.
4. Describe briefly the procedure in connection with applications for shares from time of receipt up to allotment.
5. Explain the following and their use: (*a*) letter of allotment, (*b*) letter of regret.
6. Describe the procedure in connection with the issue of shares as fully or partly paid to the vendor.
7. Explain the following: (*a*) letter of renunciation, (*b*) return of allotments.
8. What subsidiary Cash Books are used in connection with the receipt of money on shares? What objection is raised against them? What alternative procedure is there?

B

1. Explain the nature and use of a Call Book.
2. How are calls made? What is a Notice of Call?
3. Describe briefly the procedure after a call has been made by the directors.
4. How does the question of interest arise in connection with calls, and how is it treated?
5. Submit *pro formâ* ruling of a Call Book, and enter therein six specimen entries.
6. Explain the nature and use of a Register of Transfers.
7. How are shares transferred? What duty is payable on transfers?
8. State briefly the provisions of Table A in regard to transfers.

Number of Certificate 142014 [Form No. 6a.

"THE COMPANIES ACTS, 1908 TO 1917."

FORM E.

As required by Part II of The Companies (Consolidation) Act, 1908 (Section 26).

A Companies' Registration Fee Stamp of 5s. must be impressed here.

SUMMARY OF SHARE CAPITAL AND SHARES

OF

The Waldron Manufacturing and Trading Company Limited,

made up to the *14th* day of *February* 19 ..

(Being the Fourteenth Day after the date of the First Ordinary General Meeting in 19)

Nominal Share Capital, £ 100,000 divided into*	50,000 *Ordinary* Shares of £*	1 each.
	50,000 *Preference* Shares of £*	1 each.
Total Number of Shares taken up* to the *14th* day of *February* 19 (Which number must agree with the Total shown in the List as held by existing Members)		30,000 *Ord.* 28,600 *Pref.*
Number of Shares issued subject to payment wholly in Cash		38,600
Number of Shares issued as fully paid up otherwise than in Cash		20,000
Number of Shares issued as partly paid up to the extent of ____ per Share otherwise than in Cash		*Nil*
†There has been called up on each of 10,000 *Ordinary* Shares		15s.
" " " " 28,600 *Preference* "		15s.
" " " " ____ "		£ ____
§Total Amount of Calls received, including Payments on Application and Allotment		£ 29,650
Total Amount (if any) agreed to be considered as paid on 20,000 *Ordinary* Shares which have been issued as fully paid up otherwise than in Cash		£ 20,000
Total Amount (if any) agreed to be considered as paid on ____ Shares which have been issued as partly paid up to the extent of ____ per Share		£ *Nil*
Total Amount of Calls unpaid		£ *Nil*
Total Amount (if any) of sums paid by way of Commission in respect of Shares or Debentures or allowed by way of Discount since the date of last Summary		£ *Nil*
Total Amount (if any) paid on ‖ 1,400 *Preference* Shares forfeited		£ 700
Total Amount of Shares and Stock for which Share Warrants to Bearer are outstanding	Shares	£ *Nil*
	Stock	£ *Nil*
Total Amount of Share Warrants to Bearer issued and surrendered respectively since date of last Summary	Issued	£ *Nil*
	Surrendered	£ *Nil*
Number of Shares or Amount of Stock comprised in each Share Warrant to Bearer	Number of Shares	£ *Nil*
	Amount of Stock	£ *Nil*
Total Amount of Debt due from the Company in respect of all Mortgages and Charges which are required (or, in the case of a Company registered in Scotland, which, if the Company had been registered in England, would be required) to be registered with the Registrar of Companies, or which would require registration if created after the First day of July, 1908		£ 10,000

NOTE.—Banking Companies must add a List of all their Places of Business.

* Where there are Shares of different kinds or amounts (*e.g.*, Preference and Ordinary, or £10 and £5), state the numbers and nominal values separately.

† Where various amounts have been called, or there are Shares of different kinds, state them separately.

§ Include what has been received on forfeited as well as on existing Shares.

‖ State the Aggregate Number of Shares forfeited (if any)

The Return must be signed, at the End, by the Manager or Secretary of the Company.

Presented for filing by _____

List of Persons holding Shares in ___*The Waldron Manufacturing*__ on the_____*14th*_____day of_____*February*____, 19____, and of last Return, or (in the case of the first Return) of the incorporation of Shares

Folio in Register Ledger containing Particulars.	NAMES, ADDRESSES, AND OCCUPATIONS.			
	Surname.	Christian Name.	Address.	Occupation.
O.S.L.				
101	*Barker*	*Matthew*	*71 Lime Street, Barnes*	*Solicitor*
102	*Clarke*	*Edward*	*120 Mare Street, Hackney, N.E.*	*Solicitor's Clerk*
103	*Dalton*	*John*	*194 Mildmay Park, London, N.*	*H.M.C.S.*
104	*Evans*	*Fred*	*96 Rood Lane, Brixton, S.W.*	*Solicitor's Clerk*
105	*Menspey*	*Isaac*	*25 Leyton Street, Boro, London, S.E.*	*Surveyor*
106	*Prince*	*Ernest*	*12 Temple Chambers, Holborn, E.C.*	*Accountant*
107	*Retrop*	*Thomas*	*2 Lucas Street, Bexley*	*Solicitor*
108	*Waldron*	*Frank*	*1 Penley Mansions, Sidcup*	*Merchant*
109	*Goode*	*Ellen*	*114 High Road, Sydenham*	*Spinster*
110	*Longley*	*James*	*6 Park Drive, Bromfield*	*Gentleman*
111	*Johnson*	*Henry*	*65 Old Steine, Brighton*	*Gentleman*
112	*Thorpe*	*Fritz*	*9 Minstrel Street, Hastings*	*Auctioneer*
P.S.L.				
261	*Holloway*	*Percy*	*57 Luton Road, Bedford*	*Baker*
262	*Cooper*	*Albert*	*The Cedars, Farnham, Surrey*	*Gentleman*
263	*Edwards*	*Henry*	*3 Green Lanes, Mitcham*	*Barrister*
264	*Newton*	*James*	*7 The Meat Market, Reading*	*Butcher*
265	*Archer*	*Frederick*	*777 High Street, Cardiff*	*Coal Merchant*
266	*Greale*	*Edward*	*21 Park Fields, Buckley*	*Farmer*
267	*Rawlings*	*George*	*114 Maida Vale, London, S.W.*	*Stock Broker*
268	*Brooke*	*Samuel*	*15 Long Street, Burton*	*Brewer*
269	*Lipton*	*Rufus*	*42 Littleton Street, Devizes*	*Grocer*
270	*Penley*	*Claude*	*15 Tothill Mansions, Paignton*	*Colonel*
271	*Truefitt*	*Percy*	*12 High Street, Wycombe*	*Engineer*
272	*Vickers*	*Oswald*	*179 Greene Street, Thurston*	*Major*

* The Aggregate Number of Shares held, and not the Distinctive Numbers, must be stated, and the column must be added up throughout, so as to make one total to agree with that stated in the Summary to have been taken up.

† When the Shares are of different classes these columns may be subdivided, so that the number of each class held, or transferred, may be shown separately.

*and Trading Company*_____Limited,

Persons who have held Shares therein at any time since the date of the the Company, showing their Names and Addresses, and an Account of the so held.

ACCOUNT OF SHARES.								
* Number of Shares held by existing Members at date of Return.†		‡ Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who are still Members.			‡ Particulars of Shares transferred since the date of the last Return or (in the case of the first Return) of the incorporation of the Company by Persons who have ceased to be Members.			REMARKS.
		Number.†		Date of Registration of Transfer.	Number.†		Date of Registration of Transfer.	
Ord.	Pref.	Ord.	Pref.		Ord.	Pref.		
1,000		500 500		25 *June*, 19— 15 *July*, 19—				*Mensper, I. L.* *Prince, E. O.*
1								
201								
1								
501								
501								
3,495								
15,000								
5,000								
3,300		1,000 200 500 500		4 *Aug.*, 19— 15 *Sept.*, 19— 10 *Nov.*, 19— 15 *Dec.*, 19—				*Retrop, T. P.* *Dalton, J. F.* *Johnson, H. A.* *Thorpe, F. B.*
500								
500								
	3,000		300	2 *July*, 19—				*Archer, F.*
	4,500		500	19 *Aug.*, 19—				*Brooke, S. L.*
	—							1,400 *Pref.* *Shares forfeited*
	3,000		400	8 *Sept.*, 19—				*Rawlings, G.*
	5,300							
	2,000		1,000	22 *Oct.*, 19—				*Archer, F.*
	1,900							
	2,450							
	1,450							
	3,000		1,000 1,000	15 *Nov.*, 19— 19 *Nov.*, 19—				*Truefitt, P.* *Vickers, O.*
	1,000							
	1,000							
30,000	28,600							

(Signature)_____*J. Dunscombe Matthews*_____

(State whether Manager or Secretary)_____*Secretary*_____

‡ The Date of Registration of each Transfer should be given, as well as the Number of Shares transferred on each date. The particulars should be placed opposite the name of the Transferor, and not opposite that of the Transferee, but the name of the Transferee may be inserted in the "*Remarks*" column, immediately opposite the particulars of each Transfer.

NAMES, ETC., OF THE DIRECTORS OF

THE WALDRON MANUFACTURING AND TRADING COMPANY, LTD.

on the *fourteenth* day of *February*, 19....

The present Christian Name or Names and Surname.	Any former Christian Name or Names or Surname.	Nationality.	Nationality of Origin (if other than the present Nationality).	Usual Residence.	Occupations.
Waldron, Frank T., Managing Director		*British*		1 *Penley Mansions, Sidcup*	
Retrop, Thomas	*Otto Braun*	*British*	*German*	2 *Lucas Street, Bexley*	
Cooper, Albert O.		*British*		*The Cedars, Farnham*	
Archer, Frederick		*British*		777 *High Street, Cardiff*	
Longley, James F., Chairman of Directors		*British*		6 *Park Drive, Bromfield*	
Penley, Claude N.		*British*	*U.S.A.*	15 *Tothill Mansions, Paignton*	

STATEMENT in the form of a Balance Sheet made up to the 31*st* day of *December*, 19—, containing the particulars of the Capital, Liabilities, and Assets of the Company

Capital and Liabilities.							*Property and Assets.*					
Nominal Capital—							Freehold Land (at cost less depreciation)					
50,000 Ordinary Shares of £1 each	50,000	–	–				Buildings (at cost less depreciation)			8,045	10	6
50,000 Preference Shares of £1 „	50,000	–	–				Goodwill (at cost)			10,760	16	3
	100,000	–	–				Fixed Plant and Machinery (at cost less depreciation)			5,000	–	–
Issued Capital—							Loose Plant and Tools (as valued by the company's Manager)			10,020	15	6
20,000 Ordinary Shares of £1, fully paid				20,000	–	–	Stocks on hand			5,636	12	8
10,000 Ordinary Shares of 15s. called	7,500	–	–				Sundry Debtors			10,040	8	6
Add Calls paid in advance	362	10	–	7,862	10	–	Cash in hand and at Bank			10,125	3	4
28,600 Preference Shares of £1 each, 15s. paid				21,450	–	–				15,514	18	2
5% Mortgage Debentures—												
100 Bonds of £100 each				10,000	–	–						
Sundry Creditors				5,081	5	5						
Forfeited Shares (1,400 10s. paid)				700	–	–						
Profit and Loss A/c—												
Balance at credit				10,050	9	6						
				75,144	4	11				75,144	4	11

Signed. . . . . .

Auditors to the Company.

NOTE.—This statement is not required from a " Private Company " within the meaning of section 121 (1) of the Companies (Consolidation) Act, 1908, as amended by the Companies Act, 1913. But section 1 (3) of the latter Act requires that—

(3) Every private company shall send with the annual list of members and summary required to be sent under section, 26 of the Companies (Consolidation) Act, 1908, a certificate signed by a director or the secretary that the company has not, since the date of the last return, or in the case of a first return since the date of the incorporation of the company, issued any invitation to the public to subscribe for any shares or debentures of the company ; and, where the list of members discloses the fact that the number of members of the company exceeds fifty, also a certificate so signed that such excess consists wholly of persons who under section 121 of that Act, as amended by this section, are to be excluded in reckoning the number of fifty.

9. What is meant by " registration " of transfers ? Explain the usual procedure in connection therewith.
10. Explain the following: (*a*) forged transfer, (*b*) blank transfer, (*c*) Forged Transfers Acts.

C

1. Describe briefly the procedure known as " certification " of transfers.
2. Submit *pro formâ* ruling of a Register of Transfers and enter therein six specimen entries.
3. Explain the nature and use of a Share Certificate Book.
4. What are the provisions of the Companies Acts with regard to share certificates ?
5. Can a duplicate share certificate be obtained ?
6. What is a " scrip " certificate ? What stamp does it require ?
7. Explain the nature and use of the Register of Members and Share Ledger. What are the statutory requirements in connection therewith ?
8. What date should be entered in the Register of Members as date of entry ?
9. What two distinct forms of ruling are there as regards Share Ledgers ?
10. State briefly some of the statutory provisions with respect to the Register of Members. Can a company keep a Colonial Register ?

D

1. How are Share Ledgers indexed ?
2. State briefly the various steps by which the Share Ledger is posted.
3. What does (*a*) a *debit* balance, (*b*) a *credit* balance in the Cash Account of any shareholders' accounts signify ?
4. How can the balances in the Share Ledger be agreed with those in the financial books ?
5. Explain the use of the " Balance " column in a Share Ledger Account.
6. Submit *pro formâ* ruling of a Register of Members and Share Ledger, and enter therein six specimen entries ; also *pro formâ* ruling of a Register of Stockholders.
7. Explain the nature and use of a Register of Mortgages and Charges. Submit *pro formâ* ruling of same.
8. Explain the nature and use of a Debenture Application and Allotment Book.
9. Describe the procedure in connection with applications for debentures and allotments thereof.
10. Submit *pro formâ* ruling of a Debenture Application and Allotment Book, and enter therein six specimen entries.

E

1. Explain the nature and use of a Debenture Call Book, and submit *pro formâ* ruling of same.
2. Explain the nature and use of a Debenture Transfer Register.
3. Submit *pro formâ* ruling of a Debenture Transfer Register, and make six specimen entries therein.
4. Explain the nature and use of a Register of Debenture Holders. What are the statutory provisions in regard thereto ?
5. How is the Register of Debenture Holders posted ?
6. Submit *pro formâ* ruling of a Register of Debenture Holders, and enter therein six specimen items ; also *pro formâ* ruling of a Register of Debenture Stockholders.
7. Explain the nature and use of a Debenture Interest Book. Submit *pro formâ* ruling, and make three specimen entries therein.

8. Explain the nature and use of a Dividend Book. Submit *pro forma* ruling, and enter three specimen items therein.

9. Describe briefly the nature and use of the following: (*a*) Register of Directors or Managers, (*b*) Minute Book, (*c*) Share Warrant and Share Warrant Register, (*d*) Register of Probates.

10. Give some particulars regarding a Company's Annual List and Summary, and Statement in form of Balance Sheet.

EXERCISE XIV

1. On 1st July the British Aerodrom Co., Ltd., issued a prospectus offering to the public 50,000 Ordinary Shares of the company of £1 each, 2s. 6d. per share payable on application and 7s. 6d. on allotment; the balance to be called up as required. The list was closed on July 4th, and on the 5th the directors met to allot the shares, when it was found that applications had been received for 61,000 shares, as follows:—

John Jones, London	10,000 shares.
D. O. George, Flint	1,000 „
Sir William Flyon, Dublin	5,000 „
Henry Wing, Dover	5,000 „
Sundry Persons	40,000 „

The shares were allotted as follows: John Jones, 5,000; D. O. George, none; Sir W. Flyon, 1,000; H. Wing, 4,000; and Sundry Persons, 40,000. The amounts payable on allotment were all received on or before the 15th July. Rule a suitable form of Applications and Allotments Book and make the entries therein necessary to record the above transactions.—(*Chartered Accountants.*)

2. On January 20th, the Eastwood Timber Co., Ltd., allotted 500 Ordinary Shares of £1 each, number 18,500 to 18,999 to Ernest Willington, 33 Rayleigh Street, E.C., and on the same day they sent him a letter of regret with reference to the further 500 shares for which he had applied.

E. Willington paid for the shares allotted to him as follows: January 11th, 5s. per share on application; January 20th, 5s. per share on allotment; and 10s. per share (final call) on February 20th.

On February 28th, E. Willington purchased a further 500 shares, Nos. 1 to 500, on the Stock Exchange, for which he paid 21s. per share. The transfer was lodged and approved on March 6th. These shares were purchased from R. Gee, 14 High Street, Burnham.

On March 31st, E. Willington sold 100 shares, Nos. 1 to 100, to Peter Robinson, 14 Dowgate Street, Southminster, at 25s. per share, the transfer being lodged on April 1st and approved on April 3rd.

Show the transactions as they would appear in the statistical books of the Eastwood Timber Co., Ltd. Ignore all questions of brokerage, stamps and transfer fees.—(*Royal Society of Arts.*)

3. Give suitable rulings for the Share Ledger of a limited Company and enter therein the following particulars:—

John Smith, Cork Merchant, 440 Austin Friars, E.C., applied, on January 2nd, for 150 Ordinary Shares of £1 each, and forwarded the necessary 2s. 6d. per share with his application.

On January 12th, John Smith forwarded a further 2s. 6d. per share on being informed by the company that 150 Ordinary Shares (numbered 1 to 150) had been allotted to him.

On March 10th, a call of 5s. per share was notified by the Company, and was duly paid by John Smith on his holding on March 15th.

On April 3rd, John Smith sold 100 of his shares (numbered 1 to 100) to William Brown, Hatter, 486 Bond Street, W., at 12s. 6d. per share, the transfer being in due course accepted by the company.—(*London Chamber of Commerce.*)

4. The Companies (Consolidation) Act, 1908, enacts that every Public Limited Company shall file annually with the Registrar of Joint Stock Companies (with the "Summary" under Section 26 of the Companies Act) a statement in the form of a Balance Sheet, audited by the Company's auditor, containing a summary of its capital, liabilities and assets; and giving such particulars as will disclose the general nature of such liabilities and assets, and how the values of the fixed assets have been arrived at.

Submit a *pro formâ* statement, conforming with the above requirements. —(*Royal Society of Arts, Accounting and Banking.*)

5. The undermentioned persons applied for shares in the X Y Z Manufacturing Co., Ltd. The shares offered for subscription were shares of £1 each, payable 5s. per share on application, 7s. 6d. on allotment, and the balance as and when required. The distinctive numbers of the shares allotted ran from No. 1 upwards. The list was closed on February 1st, and some of the allotments made were as under :—

	Shares Applied for.	Shares Allotted.
Arthur Roberts, Wool Merchant, 10 Finsbury Street, Burnton	4,000	3,000
Henry P. Richards, Gentleman, The Grange, Lynford, Hants	3,000	2,000
Lucas Norton, Iron Manufacturer, 114 Princes Street, Sheffield	5,000	4,000
Ellen Allerton, Spinster, Park Grove, Finchley	200	nil
Norman Princeton, Stock Broker, 120 Lombard Street, London, E.C.	5,000	4,000
George L. Lloyd, Lace Manufacturer, 178 High Road, Nottingham	500	500

All moneys due on allotment were received by February 15th. Write up the Application and Allotments Book for the above.

6. The Pneumatic Tyre Co., Ltd., on March 1st allotted to Robert Essley, Merchant, of 115 Walkley Road, Thornheath, 500 Ordinary Shares of £1 each, number 721 to 1220 inclusive, upon an application dated 23rd February, Essley having on that day paid to the Company's Bankers a deposit of 2s. 6d. per share on 100 shares. The amount due on allotment was 5s. per share, which was duly paid on March 10th. On May 1st the company made a First Call of 5s. per share, which was duly paid on the 15th May. On June 25th, Essley purchased from Thomas King, Surveyor, of 14 The Lanes, Farnham, the last 100 of King's 500 shares (numbered 1 to 500 inclusive), upon which 12s. 6d. per share had been paid up; the transfer was registered on July 1st. On August 31st the company made a further Call of 2s. 6d. per share, which was duly paid on September 15th. On October 1st, Essley sold to John Tinton (a new shareholder), Merchant, of 115 Lime Street, Halifax, 80 shares, numbered 801 to 880 inclusive, 15s. per share paid up, the transfer being registered on October 12th. On October 15th the company called up the remaining 5s. per share, which was duly paid on October 25th. On November 25th, Essley sold to Philip Brown (a new shareholder), Engineer, of 9 Lupus Street, Benfield, the remainder of his shares, the transfer being registered on 2nd December. Write up the above transactions in the Company's Share Ledger, showing the accounts of Essley, King, Tinton, and Brown.

7. Referring to the previous exercise, enter the transfers therein mentioned into the company's Transfer Register, assuming the numbers of the transfer deeds and of new certificates.

8. The undermentioned persons applied for, in the order named, and were, with one exception, duly allotted shares of £1 each offered for subscription by Soleil D'or, Limited. The shares were payable as to 5s. per share on application, 5s. per share on allotment, and the balance as and when determined by resolution of the directors. The distinctive numbers allocated to the shares in question ran from 1 onwards. The application list was closed on July 1st, and all allotment moneys were paid on or before July 15th.

Make the entries recording the application for, and allotment of, the following shares in the Application and Allotment Book of the Company.

	Shares Applied for.	Shares Allotted.
Robert Rheid, 16 Finsbury Circus, E.C., Wool Broker	5,000	5,000
George Dewey, 261 Low Pavement, Nottingham, Lace Manufacturer	1,000	500
Robert Richmond, Eastwood, Essex, Rose Grower	2,000	2,000
Florence Veitch, The Manse, Loamtown, Spinster.	100	nil

—(*Royal Society of Arts.*)

9. The following is the Balance Sheet of the Northern Iron Co., Ltd., as at 30th September, 19— :—

ASSETS :—		
Freehold Land, at cost		£20,000
Buildings, at cost	£39,000	
Additions, at cost	£2,000	
	£41,000	
Depreciation	1,000	
		40,000
(*subject to Mortgage, per contra*)		
		£60,000
Fixed Plant and Machinery, value as taken over by the Company	£140,000	
Additions at cost	17,000	
	£157,000	
Depreciation	7,000	
		150,000
Loose Plant, Tools, and Patterns, as valued by the Company's Managers.		50,000
Stock in Trade, as taken and valued by the Company's Managers		80,000
Sundry Trade Debtors	£110,000	
Less Reserve for Bad Debts and Discounts	5,500	
		104,500
Goodwill		40,000
Preliminary and Formation Expenses.		10,500
		£495,000

CAPITAL AND LIABILITIES :—		
Nominal Capital, £500,000 divided into 200,000 6% Cumulative Preference Shares of £1 each, and 300,000 Ordinary Shares of £1 each.		
Paid-up Capital :—		
200,000 Ordinary Shares of £1 each	£200,000	
100,000 6% Cumulative Preference Shares of £1 each . .	100,000	
		£300,000
First Mortgage Debentures . . .		75,000
Mortgage on Freehold Land and Buildings, *contra*		20,000
County Bank for Overdraft . .		5,000
Sundry Trade Creditors . . .		60,000
Reserve Fund		20,000
Profit and Loss Account . . .		15,000
		£495,000

Draw up a Statement, in compliance with section 26 of the Companies (Consolidation) Act, 1908, giving only such information as is required to be given.—(*Chartered Accountants.*)

10. The Auto Brake Co., Ltd., was registered with a Capital of £100,000, consisting of 50,000 Ordinary Shares of £1 each, and 50,000 Preference Shares of £1 each. The objects of the Company were *inter alia* to acquire the goodwill and assets of the business of Arthur P. Dalton. The purchase price was to be paid as to £20,000 in fully paid Ordinary Shares, allotted either to the vendor or his nominees. Of the Ordinary Shares 10,000 were offered on January 1st for public subscription, payable 2s. 6d. per share on application, 7s. 6d. on allotment, and the balance in calls not exceeding 5s. per share. Applications were received, and allotments made, as follows :—

		No. of Shares Applied for.	No. of Shares Allotted.
Jan. 2.	Robert T. Lake, Solicitor, 16 Bradford Road, Leeds (including 1 as signatory) .	2,800	2,000
3.	Arthur F. Brown, Solicitor's Clerk, 19 Rufus Street, Bradford (signatory) .	1	1
4.	Frederick Cassell, H.M.C.S., 176 Park Road Finsbury, London, N.W. (signatory)	1	1
„	Thomas O. Neller, Solicitor's Clerk, 127 Brownley Road, Hampstead, London, N.W. (signatory)	1	1
6.	Norman P. Locksley, Surveyor, 125 Coldthorpe Avenue, Brixton, London, S.W. (signatory)	1	1
„	Ernest Chalmers, Accountant, 17 Buller Street, Nottingham (signatory) . . .	1	1
7.	Frank T. Bullen, Solicitor, 12 Luke Street, Bexley (including 1 as signatory) .	3,500	2,495
„	Arthur P. Dalton, Merchant, 124 Nightingale Road, Liverpool (vendor) . . .	—	15,000
„	Robert O. Brookes, Architect, 72 High Road, Fulham, London, S.W. (vendor's nominee)	—	5,000

			No. of Shares Applied for.	No. of Shares Allotted.
Jan.	7	Thomas Oldham, Grocer, 145 Pamply Street, Manchester	500	nil
	8.	John P. Silverlock, Gentleman, Clere Park, Winthorpe	10,500	5,500
	„	Mrs. Ellen Bradley, Widow, 62 Oldthimp Mansions, Burghley	500	nil

Allotments were made on January 15th in order of application, and the shares were numbered from 1 upwards. No allotments were made to Oldham and Mrs. Bradley, whose deposits were duly returned in full together with Letters of Regret Nos. 1 and 2. The moneys due on allotment were payable by January 20th, by which date they were all received. Write up the Application and Allotments Book, and subsidiary Cash Book, recording the above particulars.

11. The Auto Brake Co., Ltd., offered to the public on January 1st 30,000 6% Preference Shares, payable as follows: 5s. per share on application, 5s. per share on allotment, and the balance in calls not exceeding 5s. per share. Applications were received, and allotments made, as under :—

			No. of Shares Applied for.	No. of Shares Allotted.
Jan.	2.	Thomas O. Lucas, Baker, 62 Cold Harbour Lane, Bedford	2,500	2,000
	„	Percy F. Allen, Gentleman, Park Gates Mansion, Framley	10,000	6,000
	3.	Albert R. Simpson, Clerk, 164 High Road, Burnham	120	nil
	„	George T. Roberts, Barrister, 24 Keble Street, Tooting Graveney, London, S.W.	1,800	1,500
	4.	Henry Peters, Butcher, 84 High Street, Merton, London, S.W.	4,500	3,500
	„	Arthur O. Greenham, Coal Merchant, Leethorpe Road, Cardiff	5,000	4,000
	5.	James Smithers, Farmer, Park Farm, Brimsley	3,500	3,000
	„	Edward E. Thompson, Brewer, 72 Shingle Street, Burton	1,600	1,500
	6.	Frederick P. Martin, Clerk, 169 Tonge Road, Kealey	2,500	2,000
	„	Samuel Short, Stock Broker, 72 Moreton Road, Piccadilly, W.	150	nil
	7.	Philip J. Ruthven, Grocer, 29 Lake Street, Bashton	2,000	1,500
	8.	Rufus O. Barnard, Major, 15 Lipton Mansions, Thornton Heath	5,500	5,000

Deposits were returned in full with Letters of Regret, Nos. 3 and 4 to Simpson and Short. Allotments were made on January 15th in order of application, the shares being numbered from 50,001 upwards. Write up the Application and Allotments Book, and subsidiary Cash Book, recording the above particulars.

12. From the previous two exercises, Nos. 10 and 11, make out in the prescribed form the statutory Return of Allotments.

13. On May 5th, the directors of the Auto Brake Co., Ltd., made a first

call of 5s. per share on the Ordinary Shares. The call was payable by the 20th May, and the following amounts were received :—

May	9.	R. T. Lake	2,000 Shares	£300	– –
	11.	A. F. Brown	1 Share	5	–
	13.	F. Cassell	1 „	5	–
	14.	T. O. Neller	1 „	5	–
	15.	N. P. Locksley	1 „	5	–
	17.	E. Chalmers	1 „	5	–
	18.	F. T. Bullen	2,495 Shares	323 15	–
	20.	J. P. Silverlock	5,500 „	1,375	– –

Lake and Bullen were allowed till June 20th to pay the balance, plus interest at 5%, on which date the sums due (including interest thereon) were duly received. Write up from Exercises 10 and 11 and the above particulars the Call Book and the subsidiary Cash Book.

14. On May 5th, the directors of the Auto Brake Co., Ltd., made a first call of 5s. per share on the Preference Shares. The call was payable by the 20th May, and the following amounts were received :—

May	8.	R. O. Barnard	5,000 Shares	£1,250
	10.	P. J. Ruthven	1,500 „	375
	12.	F. P. Martin	2,000 „	250
	13.	E. E. Thompson	1,500 „	750
	14.	J. Smithers	3,000 „	750
	16.	A. O. Greenham	4,000 „	500
	17.	H. Peters	3,500 „	875
	19.	O. F. Allen	6,000 „	1,500
	20.	T. O. Lucas	2,000 „	500

F. P. Martin and A. O. Greenham were allowed till June 20th to pay the balance, on which date the sums due (plus interest thereon at 5%) were duly received. No money at all was received from G. T. Roberts, whose shares were forfeited on June 25th. Write up the Call Book and subsidiary Cash Book.

15. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Auto Brake Co., Ltd. :—

June 23rd, 200 shares (1—200) from R. T. Lake to N. P. Locksley ; No. of transfer deed, No. 1.

July 13th, 500 shares (201—700) from R. T. Lake to F. T. Bullen.

August 2nd, 1,000 shares (24,501—25,500) from J. P. Silverlock to F. T. Bullen.

September 15th, 300 shares (25,501—25,800) from J. P. Silverlock to F. T. Bullen.

November 18th, 500 shares (25,801—26,300) from J. P. Silverlock to Arthur Finchley, Solicitor, 11 Jupiter Street, Yeovil.

December 12th, 500 shares (26,301—26,800) from J. P. Silverlock to Robert T. Penwith, Leather Merchant, 11 Tower Street, Bermondsey, London, S.E.

Write up the Company's Register of Transfers.

16. The following transfers of Preference Shares were made, approved, and duly registered in the books of the Auto Brake Co., Ltd. :—

July 22nd, 500 shares (50,001—50,500) from T. O. Lucas to H. Peters; transfer deed No. 101.

August 15th, 500 shares (52,001—52,500) from P. F. Allen to H. Peters.

September 10th, 1,000 shares (63,001—64,000) from A. O. Greenham to F. P. Martin.

October 20th, 500 shares (64,001—64,500) from A. O. Greenham to F. P. Martin.

November 8th, 500 shares (70,001—70,500) from E. E. Thompson to F. R. Smithers, Lace Merchant, 7 Royal Street, Nottingham.
December 12th, 1,000 shares (75,001—76,000) from R. O. Barnard to T. S. Lupus, Corn Factor, 11 High Street, Basingstoke.
Write up the Company's Register of Transfers.

17. From the particulars given in exercises Nos. 10, 13, and 15, write up the Auto Brake Co.'s Ordinary Share Ledger.

18. From the particulars furnished in exercises Nos. 11, 14, and 16, write up the Auto Brake Co.'s Preference Share Ledger.

19. The Auto Brake Co., Ltd., having taken power in its Memorandum of Association to issue £10,000 debentures in bonds of £100 each, offered the same for public subscription on March 1st, payable 40% on application and 60% on allotment. Applications were received, and allotments made, as under :—

		Applied for.	Allotted.
Mar. 2.	Robert E. Adams, Baker, 61 Carnaby Street, Birmingham	30	20
3.	Alfred Brady, Surveyor, 17 Seaford Road, Liverpool	10	10
4.	William S. Cooper, Butcher, 21 Regent Street, Leeds	6	nil
„	Charles T. Dawson, Architect, 44 Windsor Road, Manchester	10	5
5.	Henry Ellis, Solicitor, 21 Crofton Street, Warwick.	6	5
„	Philip O. Forster, Artist, 12 Penton Road, Nottingham	6	5
6.	Edward Goodwin, Journalist, 75 Percy Street, Reading	10	10
7.	Catherine E. Howard, Spinster, 25 Burnaby Gardens, Winchester	25	20
„	Walter Irving, Engineer, 112 Brockley Road. Southampton	10	5
8.	Thomas D. Jeffries, Merchant, 29 Granville Street, London, W.	5	nil
„	Matthew Lockwood, Barrister, 108 Westbourne Grove, Windsor	5	5
„	Lionel F. Taylor, Gentleman, 76 Stewart Road, London, W.	20	15

Allotment was made on March 10th in order of application, the numbers of the debentures running from 1 upwards. No allotment was made to Cooper and Jeffries, whose deposits were duly returned with Letters of Regret, Nos. 5 and 6. The moneys payable on allotment were all received by March 20th. Write up the Debenture Applications and Allotments Book and subsidiary Cash Book.

20. The following transfers of debentures were made, approved, and duly registered in the books of the Auto Brake Co., Ltd. :—
May 15th, 5 Debentures (1—5) from R. E. Adams to C. T. Dawson; No. of transfer deed, No. 101.
June 10th, 5 Debentures (56—60) from C. E. Howard to H. Ellis.
15th, 5 Debentures (86—90) from L. F. Taylor to P. O. Foster.
25th, 5 Debentures (61—65) from C. E. Howard to H. Ellis.
July 9th, 5 Debentures (6—10) from R. E. Adams to James Burnaby, Merchant, 112 Leman Street, Northampton.
Aug. 22nd, 5 Debentures (91—95) from L. F. Taylor to Rupert Armstrong, Engineer, 95 Bromley Road, Newcastle.
Write up the Debenture Transfer Register.

21. From the particulars given in exercises 19 and 20 write up the Auto Brake Co.'s Register of Debenture Holders.

22. From the particulars recorded in the Auto Brake Company's Register of Debenture Holders (exercise 21), assuming there to be no further change, write up the Debenture Interest Book for the half-year ended 31st December.

23. The directors of the Auto Brake Co., Ltd., resolved to pay, less tax at current rate, the 6% Dividend on the Preference Shares for the year ending 31st December, according to the amounts paid up on such shares. Write up the Preference Share Dividend Book.

24. The directors of the Auto Brake Co., Ltd., resolved to pay, free of tax, a Dividend of 10% on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. Write up the Ordinary Share Dividend Book.

25. From the particulars recorded in the Auto Brake Company's Share Ledgers, Transfer Registers, etc., prepare the Company's Annual List and Summary, and draw up a *pro formâ* Statement in form of Balance Sheet to be rendered with such Summary.

26. The Ornis Aeroplane Co., Ltd., was registered with a Capital of £50,000, divided into 25,000 Ordinary Shares of £1 each, and 25,000 Preference Shares of £1 each. The Ordinary Shares were offered for subscription on February 1st, payable 2s. 6d. per share on application, 5s. per share on allotment, and the balance as and when required. Applications were received, and allotments made, as under :—

		Applied for.	Allotted.
Feb. 2.	George Dudley, Printer, 16 Muswell Road, Bedford	2,000	1,000
3.	James Forecast, Stationer, 12 Grand Avenue, Lincoln	500	nil
4.	Alfred Greaves, Merchant, 65 Burgoyne Road, Derby	6,000	5,000
„	John Hamlin, Corn Dealer, 27 Flask Street, Warwick	4,000	2,000
5.	Richard Johnson, Artist, 96 Holland Park Road, Hitchin	3,000	1,000
„	Frederick Kutner, Grocer, 112 Evering Road, Bromley	6,000	5,000
6.	Thomas Lethaby, Baker, 72 Piccadilly, London, W.	500	nil
7.	Mabel Lansdown, Spinster, 104 Ellerton Road, Chatham	3,000	2,000
„	Charles Marshall, Butcher, 27 Hewlett Street, Cardiff	3,000	2,000
8.	Robert Newman, Ship Broker, 74 Havelock Road, Newport	5,000	3,000
„	Arthur Pearce, Schoolmaster, 68 Childebert Street, Bexley	3,000	2,000
„	Ronald Stevens, Journalist, 174 High Street, Islington, London, N.	3,000	2,000

Allotments were made on February 12th in the order of application, the shares being numbered from 1 upwards. No allotments were made to Forecast and Lethaby, whose deposits were returned in full together with Letters of Regret, Nos. 1 and 2. The amounts due on allotment were duly received by February 20th. Write up the Applications and Allotments Book, and subsidiary Cash Book.

27. The Ornis Aeroplane Co., Ltd., offered on February 1st for public subscription 25,000 5% Preference Shares of £1 each, payable 5s. per share on application, 7s. 6d. per share on allotment, and the balance as and when required. Applications were received, and allotments made, as follows :—

		Applied for.	Allotted.
Feb. 3.	Henry Colley, Architect, 56 Derrington Street, Nottingham	3,000	2,000
,,	William Clarke, Surveyor, 127 Griffin Road, Appleby	2,000	1,000
,,	Norman Dowse, Cotton Merchant, 38 Grosvenor Street, Worcester	6,000	5,000
4.	Julius Drummond, Solicitor, 16 Birkbeck Road, Buckley	250	nil
,,	Evan Figgs, Banker, Barron's Court, Farnham	2,000	1,000
5.	Francis Grover, Mason, 316 Holden Road, Halifax	6,000	5,000
,,	Leslie Groote, Builder, 98 Union Street, Leicester	300	nil
6.	Eva Herrick, Spinster, 17 Hoopwick Street, York	3,000	2,000
,,	Frederick Hallett, Metal Worker, 30 Seymour Street, Truro	3,000	2,000
7.	Thomas James, Journalist, 139 The Grove, Ealing, London, W.	4,000	3,000
8.	Isaac Minns, Sculptor, 56 Elgin Avenue, Devonport	3,000	2,000
,,	Donald Palmer, Gum Merchant, 38 Gower Street, London, W.	3,000	2,000

Allotments were made in order of application on February 12th, the shares being numbered from 25,001 upwards. No allotment was made to Drummond and Groote, whose deposits were returned in full together with Letters of Regret, Nos. 3 and 4. The amounts payable on allotment were all received by February 15th. Write up the Applications and Allotments Book, and subsidiary Cash Book.

28. Referring to Exercises 26 and 27, write up the statutory Return of Allotments.

29. On May 15th, the directors of the Ornis Aeroplane Co., Ltd., made a first call of 5s. per share on the Ordinary Shares. The call was payable by 25th May, and the following amounts were received :—

May 17.	R. Stevens	2,000	Shares	£1,250
18.	A. Pearce	2,000	,,	500
19.	R. Newman	3,000	,,	750
20.	C. Marshall	2,000	,,	300
21.	M. Lansdown	2,000	,,	500
22.	F. Kutner	5,000	,,	1,250
23.	J. Hamlin	2,000	,,	500
24.	A. Greaves	5,000	,,	750
25.	G. Dudley	1,000	,,	250

Stevens and Greaves were allowed till 25th June to pay the balance, subject to 5% interest thereon, on which date the amounts (plus interest) were duly received. No money at all was received from R. Johnson, whose shares, after due notice, were forfeited on June 30th. Write up the Call Book and the subsidiary Cash Book.

30. On May 15th, the directors of the Ornis Aeroplane Co., Ltd., made a first call of 5s. per share on the Preference Shares. The call was payable by 25th May, and the following amounts were received :—

May 17.	D. Palmer	2,000 Shares		£300
17.	I. Minns	2,000	„	500
18.	T. James	3,000	„	750
19.	F. Hallett	2,000	„	500
20.	E. Herrick	2,000	„	500
21.	F. Grover	5,000	„	750
22.	E. Figgs	1,000	„	250
23.	N. Dowse	5,000	„	1,250
24.	W. Clarke	1,000	„	375
25.	H. Colley	2,000	„	500

Palmer and Grover were allowed till June 25th to pay the balance, subject to interest at 5%, on which date the amounts due (plus interest) were duly received. Write up the Call Book and the subsidiary Cash Book.

31. The following transfers of Ordinary Shares were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd. :—

July 10th, 1,000 shares (1,001—2,000) from A. Greaves to G. Dudley; transfer deed, No. 1.

August 15th, 500 shares (2,001—2,500) from A. Greaves to John Hamlin.

September 23rd, 1,000 shares (9,001—10,000) from F. Kutner to George Dudley.

September 29th, 1,000 shares (10,001—11,000) from F. Kutner to John Hamlin.

October 12th, 500 shares (18,001—18,500) from R. Newman to Philip Mence, Stock Broker, 16 Maida Vale, London, W.

November 15th, 500 shares (18,501—19,000) from R. Newman to Isaac Finshel, Merchant, 27 North Street, Exeter.

Write up the company's Register of Transfers.

32. The following transfers of Preference Shares were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd. :—

July 9th, 500 shares (25,001—25,500) from Henry Colley to William Clarke.

25th, 1,000 shares (28,001—29,000) from Norman Dowse to Evan Figgs.

August 13th, 1,000 shares (34,001—35,000) from Francis Grover to William Clarke.

September 9th, 1,000 shares (43,001—44,000) from Thomas James to Evan Figgs.

October 20th, 500 shares (39,001—39,500) from Eva Herrick to Thomas Rugger, Journalist, 19 Lake Street, Finsbury Park, London, N.

November 15th, 500 shares (29,001—29,500) from Norman Dowse to Lionel Tomlin, Butcher, 15 Court Road, Penzance.

Write up the company's Register of Transfers.

33. From the particulars furnished in exercises Nos. 26, 29, 31, write up the Ornis Aeroplane Co.'s Ordinary Share Ledger.

34. From the particulars furnished in exercises Nos. 27, 30, 32, write up the Ornis Aeroplane Co.'s Preference Share Ledger.

35. The Ornis Aeroplane Co., Ltd., having power by its Memorandum of Association to issue £15,000 6% Debentures in bonds of £100 each, offered the same on March 1st for public subscription, payable 20% on application,

30% on allotment, and the balance as and when required. Applications were received, and allotments made, as follows :—

		Applied for.	Allotted
Mar. 2.	Charles Marshall, Surveyor, 16 Faraday Street, Dalston, London, N.	25	20
„	Gregory Norton, Solicitor, 24 Norman Road, Barnes, London, S.W.	5	nil
3.	Rufus Simmons, Baker, 7 Woodquest Avenue, Bedford	15	10
„	Harold Medlar, Engineer, 92 Bridge Street, Poole	25	20
4.	Alexander Pope, Architect, 56 Finchley Road, Dorchester	25	20
„	Horace Biedler, Surveyor, 27 Hamilton Gardens, Exeter	20	15
5.	Julia Penfold, Spinster, 32 Sidney Street, Bath	20	15
6.	Ernest Sims, Accountant, 17 The Parade, Taunton	5	nil
„	Claude Rayner, Printer, 27 Barnsley Road, Oxford	25	20
7.	Martin Drayman, Banker, 17 Walm Lane, Somerset	15	10
8.	Peter Tilbrook, Commission Agent, 124 Pitlake Street, Yeovil	20	15
„	Archibald Vellacott, Leather Merchant, 324 Oxford Street, London, W.	10	5

Allotments were made on March 12th in order of application, the numbers of the debentures running from 001 onwards. No allotment was made to Norton or Sims, whose deposits were duly returned with Letters of Regret Nos. 5 and 6. The moneys payable on allotment were all received by 22nd March. Write up the Debenture Application and Allotments Book and subsidiary Cash Book.

36. On June 1st, the directors of the Ornis Aeroplane Co., Ltd., resolved to call up the remaining 50% unpaid on the debentures. The call was payable by June 15th, and the following amounts were received :—

June 4.	A. Vellacott	5	Debentures	£250
5.	P. Tilbrook	15	„	750
6.	M. Drayman	10	„	500
„	C. Rayner	20	„	1,000
7.	Julia Penfold	15	„	750
8.	H. Biedler	15	„	750
9.	A. Pope	20	„	1,000
10.	H. Medlar	20	„	1,000
13.	R. Simmons	10	„	500
14.	C. Marshall	20	„	1,000

Write up the Debenture Call Book and subsidiary Cash Book.

37. The following transfers of Debentures were made, approved, and duly registered in the books of the Ornis Aeroplane Co., Ltd. :—

May 15th, 10 Debentures (001—010) from C. Marshall to R. Simmons; transfer deed, No 101.
June 20th, 10 Debentures (031—040) from H. Medlar to M. Drayman
July 15th, 5 Debentures (051—055) from A. Pope to A. Vellacott.
27th, 5 Debentures (101—105) from C. Rayner to A. Vellacott.

August 18th, 5 Debentures (071—075) from H. Biedler to Edwin Hook, Solicitor, 27 Holland Park Avenue, Brixton, London, S.W.
September 23rd, 5 Debentures (086—090) from Julia Penfold to Jonas Kemsley, Surveyor, 90 Lawrence Road, Horsham.
Write up the Debenture Transfer Register.

38. From the particulars furnished in exercises Nos. 35, 36, 37, write up the Ornis Aeroplane Co.'s Register of Debenture Holders

39. From the particulars recorded in the Ornis Aeroplane Co.'s Register of Debenture Holders (Exercise 38), assuming there to be no further change, write up the Debenture Interest Book for the half-year ending 31st December.

40. The directors of the Ornis Aeroplane Co., Ltd., resolved to pay, less tax at current rate, the 5% Dividend on the Preference Shares for the year ending 31st December, according to the amounts paid up on such shares. Write up the Preference Share Dividend Book.

41. The directors of the Ornis Aeroplane Co., Ltd., resolved to pay, less tax at current rate, a Dividend of 15% on the Ordinary Shares for the year ending 31st December, according to the amounts paid up thereon. Write up the Ordinary Share Dividend Book.

42. From the particulars recorded in the Ornis Aeroplane Company's Share Ledgers, Transfer Registers, etc., prepare the Company's Annual List and Summary, and draw up a *pro formâ* Statement in form of Balance Sheet to be rendered with such Summary.

43. The Aurium Mining Co., Ltd., was registered with a Capital of £50,000, consisting of 50,000 Ordinary Shares of £1 each. The objects of the company were *inter alia* to acquire certain rights and concessions from the vendors. Frank Minster and William Thorne. The consideration for the purchase was £10,000 in Cash (half to each vendor), and 20,000 in shares of £1 each allotted as fully paid (half to each vendor). The balance of the shares was offered for public subscription on February 11th, payable 2s. per share on application, 3s. per share on allotment, and the remaining 15s. per share, as and when required, in calls not exceeding 5s. per share. Applications were received, and allotments made, as under :—

		Applied for.	Allotted.
Feb. 12.	Frank C. Minster (vendor), Mining Engineer, 3 Revell Street, Hitchin .	—	10,000
„	William Thorne (vendor), Mining Engineer, 29 Thorpe Avenue, Southampton	—	10,000
„	Robert Phillips, Merchant, 27 Normal Street, Derby	4,000	4,000
13.	Leslie H. Goode, Tea Broker, 27 Mincing Lane, London, E.C. . . .	2,500	2,500
„	Walter C. Best, Solicitor, 12 High Road, Luton	3,000	3,000
14.	Samuel Butler, Surveyor, 56 Park Avenue, Buckingham . . .	500	500
15.	Joseph T. Wington, Architect, 112 High Street, Brighton	1,500	1,500
16.	Henry F. Prince, Mason, 62 Revelstoke Road, Birmingham . . .	500	500
17.	George Buckley, Printer, 27 Philipville Road, Swansea	4,000	4,000

		Applied for.	Allotted.
Feb. 18.	Richard Lambe, Architect, 3 Luxville Gardens, Hove	50	nil
19.	Philip S. Yates, Brewer, 91 Longley Street, Burton	5,000	5,000
20.	Arthur O. Tetley, Journalist, 16 Lupus Street, Bradford	5,000	5,000

Allotments were made on February 22nd in order of application, the shares being numbered from 1 upwards. The necessary contract setting forth the consideration for the shares issued as fully paid to the vendors was duly registered. The deposit of Richard Lambe was returned in full, no allotment having been made to him.

On February 28th the amounts payable by the allottees were duly received.

On April 28th the directors made a first call of 5s. per share, payable by May 10th, and the following amounts were received :—

A. O. Tetley	5,000 Shares		£1,250
P. S. Yates	5,000 ,,		1,250
G. Buckley	4,000 ,,		1,000
H. F. Prince	500 ,,	(in full)	375
J. T. Wington	1,500 ,,		375
W. C. Best	3,000 ,,		750
L. H. Goode	2,500 ,,		625
R. Phillips	4,000 ,,		1,000

Further transactions took place, as follows :—

May 25. Transfer registered ; 1,000 shares (20,001—21,000) from R. Phillips to H. F. Prince.

29. G. Buckley applied for 3,000 additional shares, which were duly allotted to him (Nos. 46,001—49,000), and paid 10s. per share in respect of same.

30. Transfer registered ; 500 shares (36,001—36,500) from P. S. Yates to L. H. Goode.

June 5. Resolution passed by the Board cancelling the shares held by S. Butler, who had failed to pay the First Call.

25. Transfer registered ; 2,000 shares (41,001—43,000) from A. O. Tetley to J. T. Wington.

July 10. Transfers registered :—
1,000 shares (36,001—37,000) from P. S. Yates to L. H. Goode ;
1,500 shares (37,001—38,500) from P. S. Yates to W. C. Best ;
500 shares (22,001—22,500) from P. S. Yates to L. H. Goode.

You are required to write up :—

(1) Application and Allotments Book and subsidiary Cash Book.
(2) Statutory Return of Allotments.
(3) Call Book and subsidiary Cash Book.
(4) Register of Transfers.
(5) Share Ledger.
(6) Annual List and Summary (assuming there to be no further change), and a Statement in form of Balance Sheet to be rendered with such Summary.

44. The British Timber Syndicate, Ltd., was registered with a Capital of £200,000, divided into 10,000 Ordinary Shares of £10 each, and 10,000 6% cumulative Preference Shares of £10 each. The objects of the syndicate were *inter alia* to purchase as a going concern the business of Messrs. Poole & Co. The purchase price was agreed at £110,000, payable as to £10,000 in Cash, and as to £100,000 in 10,000 Ordinary Shares of £10 each allotted as fully paid.

The whole of the Preference Shares were offered for public subscription on February 15th, payable £1 10s. on application, £1 10s. on allotment, £3 on

1st April, £2 on 1st June, and £2 on 1st August. Applications and deposits were received as follows :—

		No. of Shares.	Amount of Deposit.
Feb. 16.	Fred Smith, Surveyor, 12 Brooke Street, Lyndhurst	1,200	£1,800
17.	Thomas E. Finch, Journalist, 64 Fleet Street, London, E.C.	600	900
18.	Philip Strong, Architect, 17 Thornville Road, Buxton	1,000	1,500
„	Grace M. Carter, Spinster, 2 Boulders Lane, Cleethorpes	600	900
„	Reginald Turner, Merchant, 56 Longworth Road, Thurston	1,200	1,800
19.	Arthur Brown, Broker, 95 St. Peter's Road, Somerset	1,000	1,500
„	Norman Trelwyn, Mason, 110 Lime Street, Liverpool	1,500	2,250
20.	Leslie Philpott, Butcher, 14 Larneway Avenue, Buxton	600	900
„	Harold French, Designer, 106 Corncrake Lane, Leicester	1,200	1,800
21.	Alfred Smith, Banker, 2 Grange Mansions, Pudworth	2,500	3,750

On February 23rd the directors made the following allotments:—

F. Smith	1,000 Preference Shares, numbered	1	to 1,000
T. Finch	500 „ „ „	1,001	to 1,500
P. Strong	1,000 „ „ „	1,501	to 2,500
C. M. Carter	500 „ „ „	2,501	to 3,000
R. Turner	1,000 „ „ „	3,001	to 4,000
A. Brown	1,000 „ „ „	4,001	to 5,000
N. Trelwyn	1,500 „ „ „	5,001	to 6,500
L. Philpott	500 „ „ „	6,501	to 7,000
H. French	1,000 „ „ „	7,001	to 8,000
A. Smith	2,000 „ „ „	8,001	to 10,000
Poole & Co. (Vendors)	10,000 Ordinary „ „	10,001	to 20,000

On March 1st the various sums payable by the allottees were duly received:—
The following further transactions took place :—

Mar. 10. Transfer registered ; 1,000 Ordinary Shares (10,001—11,000) from Poole & Co. to Francis Laurel, Mason, 16 Penzance Road, Falmouth.

22. Transfer registered ; 1,000 Ordinary Shares (11,001—12,000) from Poole & Co. to Bert Tomlin, Grocer, 27 Elgin Avenue, Somerset.

25. Transfer registered ; 100 Preference Shares (1—100) from F. Smith to T. Finch.

April 1. Sums due from shareholders on account of First Call duly received.

20. Transfer registered ; 500 Preference Shares (6,501—7,000) from L. Philpott to H. French.

May 16. Transfer registered ; 1,000 Preference Shares (8,001—9,000) from A. Smith to T. Finch.

24. Transfer registered ; 1,000 Ordinary Shares (12,001—13,000) from Poole & Co. to Leslie Charlton, Banker, 3 Lothbury Mansions, Poole.

June 1. The sums due from Shareholders in respect of Second Call duly received.

June 23. Transfer registered; 500 Ordinary Shares (13,001—13,500) from Poole & Co. to Charles Dalton, Builder, 64 Roseberry Avenue, Paignton.

July 16. Transfer registered; 500 Preference Shares (5,001—5,500) from N. Trelwyn to R. Turner.

Aug. 1. The sums due from shareholders in respect of Final Call duly received, except £1,000 from A. Brown, on which he agreed to pay interest.

20. Transfer registered; 500 Preference Shares (1,501—2,000) from P. Strong to H. French.

Sep. 19. Transfer registered; 500 Ordinary Shares (13,501—14,000) from Poole & Co. to Robert Soames, Gentleman, 17 Lionel Gardens, Bromley.

You are required to write up :—

(1) Application and Allotment Books and subsidiary Cash Books.
(2) Statutory Return of Allotments.
(3) Call Books and subsidiary Cash Books.
(4) Transfer Registers.
(5) Share Ledgers (Ordinary and Preference).
(6) Annual List and Summary (assuming there to be no further change), and a Statement in form of Balance Sheet to be rendered with such Summary.

45. A shareholder, owning 50 Shares of £1 each, numbered 8—57, acquired on 1st January, under Transfer No. 6, appears on the Share Ledger (duly indexed) as :—

John Arthur Hoskins,
The Limes,
Didport.

He having died, sketch the general form of his Share Account, and show how you would register Probate sent you on 1st March, in favour of

Charles Winthrop,
The Lodge,
Gorse Hill.

State also what you would do as regards the old Share Certificate.—(*Chartered Accountants.*)

46. The Shareholders' Trust, Limited (directors, John Smythe, Tom Browne, and Richard Bruce-Jones; secretary, A. Scribe; and auditors, Critic & Co.), was entitled to commence business on 1st April, 19—. 80,000 shares of 10s. each had been applied for and duly allotted, and 2s. 6d. per share payable on application, with 2s. 6d. per share payable on allotment, had been received by the Company. An additional 10,000 shares were, under the purchase agreement, allotted to the vendors as fully-paid. The following payments had been made prior to the date of the report, viz. :—

On account of Preliminary Expenses	£2,500
Investments	10,000
Directors' Fees, etc.	250
Printing and Stationery, Postages and Sundries	45

The sum of £5,000 had been placed on deposit at the bank.

The Preliminary Expenses are estimated in the prospectus at £3,500.

Prepare the Statutory Report (with Auditors' certificate), and state within what period the statutory meeting of the Company should be held, in order to comply with Section 65 of the Companies (Consolidation) Act, 1908. —(*Chartered Accountants.*)

REVISION EXERCISE XIV.

1. Is it advantageous or not to convert a business into a limited liability company? Give reasons for your answer.—(*Lancashire and Cheshire Union.*)

2. A Retail Trader has 4 shops (A, B, C and D). His total figures for the year are Sales A £4,000, B £3,600, C £3,800, D £2,000. The Stock at the beginning of the year is £5,500, and at the end £5,300. The Purchases are £9,800. The Expenses not kept separately for each shop are Printing, Stationery and Advertising £48, Trade Expenses £210.

The Rents and Rates are A £150, B £110, C £180, D £115, and the Wages are A £218, B £194, C £234, D £180. On the basis that each shop earns the same rate of gross profit, prepare a statement showing the net profit at each shop, dividing the expenses in proportion to the business done.—(*West Riding of Yorkshire.*)

3. A friend desires you to advise him as to whether he should invest £1,000 (which he has free) in :—

(*a*) Ordinary Shares of a Company which has paid 8% per annum during the last three years; or

(*b*) In 6% Cumulative Preference Shares of the same Company, or

(*c*) In 4% Debentures of the same Company.

How would you advise him?—(*Lancashire and Cheshire Union.*)

4. A sold goods to the value of £600 to B on 2nd January. On 2nd February B sent A a bill, dated that day, for £600 at 4 months. On 5th March, A discounted the bill with his bankers at 6% per annum. On 28th May, B wrote to A and informed him that he was unable to meet the bill, and requested A to retire it, which A did. At the same time, B sent A a cheque for £200 (which was duly met), and a bill at 3 months dated 2nd June for £400 and interest at 5% per annum. Make the entries in A's books, recording the above transactions, opening and posting in the Ledger the accounts which are affected —(*Chartered Accountants.*)

5. A firm of three partners, G, H, and J, who were interested in the profits or losses of their general business in the proportions of 40%, 30%, and 30% respectively, entered, at the instance of H, into two outside ventures on the understanding that, if a profit resulted in either case, H's proportion thereof should exceed his usual proportion by 10%, and if, on the other hand, a loss resulted from either transaction, H's proportion thereof should exceed his usual proportion by 15%. Venture No. 1 yielded a profit of £1,000. Venture No. 2 resulted in a loss of £500. The ordinary business showed a profit of £2,000. Divide up the results in the manner agreed, and show their effect in a personal account with each partner.—(*Chartered Accountants.*)

6. The entire undertaking of an old Company was purchased by a new limited company for the lump sum of £100,000 as on 1st July.

The old Company's Balance Sheet on 30th June, stood thus :—

Liabilities		Assets	
Subscribed Capital	£110,000	Freeholds, cost	£20,000
Creditors	3,050	Buildings, cost	15,000
Reserve for contingencies, extra Depreciation, etc.	1,950	Plant, after normal Depreciation	17,500
		Works in progress, per Cost Books	22,500
		Stocks, cost	20,000
		Book Debts, *less* Reserve	14,250
		Cash at Bank	5,735
		Cash in hand	15
	£115,000		£115,000

How would you propose to deal with these figures in opening the books of the new company, no valuations of any kind having been made ?—(*Chartered Accountants.*)

7. What form of Ledger would you suggest for a business in which the accounts carry interest on current transactions, and what simple method would you adopt for calculating the interest ?—(*Chartered Accountants.*)

8. A Company issues £100,000 Debenture Stock at 90%, and pays 2% for underwriting it. How should the transaction show in the Company's books ? —(*Chartered Accountants.*)

9. Open the books, and prepare a Trial Balance therefrom, of a limited company formed on 1st January, with a Capital of 50,000 shares of £1 each, and 1,000 Debentures of £50 each, both fully subscribed and paid up in Cash on that date. The Company took over the business of a private firm, whose assets, purchased and paid for on 31st January, were as follows :—

Stock-in-trade	£50,000
Book Debts	40,000
Cash at Bankers	5,000
Fixtures, Furniture, etc.	2,000
Leasehold Premises	3,000
Goodwill	12,000

As part of the consideration for the purchase of the assets, the Company assumed the liabilities amounting to £12,000.—(*Chartered Accountants.*)

10. The books of a merchant include two Bought Ledgers and three Sales Ledgers. You are required to arrange that each of these Ledgers shall balance independently, and also that the Cash Book, disclosing the position of the Bank Account, shall not be open to the ledger clerks. Detail the method you would adopt.—(*Chartered Accountants.*)

11. L. Brier and C. Oke entered into partnership on January 1st, 1905 L. Brier bringing in cash £8,000, C. Oke bringing in nothing. The partnership agreement stipulated that Brier was to receive 5% interest on his capital before dividing any profit, which was divisible three-fifths and two-fifths respectively. On December 31st, 1909, they agreed upon a dissolution. A Balance Sheet was prepared at December 31st, 1909, and stood as follows :—

Liabilities			Assets	
L. Brier, Capital A/c.		£8,000	Book Debts	£14,000
J. Harrison, Loan Account		4,000	Stock-in-trade	5,700
Sundry Creditors		4,200	Machinery, etc.	2,400
Balance of Profit & Loss Account	£10,000		Drawings Account—	
Profit for the year 1909	2,500		L. Brier	5,350
		12,500	C. Oke	1,250
		£28,700		£28,700

L. Brier has not been credited with any interest since the commencement of the partnership. No interest on drawings or undistributed profits is to be taken into account. The Book Debts realised £13,600, the Stock-in-trade £4,900, and the Machinery £2,800. An amount of £500 was also received for

Goodwill, which had not appeared in the partnership books. Write up the necessary accounts to give effect to the above statements, assuming that all liabilities are discharged and that the costs of realisation, amounting to £300, are also paid by cash. Show the closing of the partners' Capital Accounts. The interest on L. Brier's capital is to be reckoned for each year on the original figure of £8,000, and no interest on interest need be taken into account. —(*Lancashire and Cheshire Union.*)

12. The undermentioned errors were discovered in the books of J. Johnson & Co., affecting the year ended 30th June.

(1) April 20.—A cheque received from W. Brown for £11 was posted to his credit as 11s.

(2) May 31.—A Sale of £26 10s. 0d. was credited correctly, but debited to the Customer's Account as £20 6s. 10d.

(3) June 29.—Goods were returned by R. Carr of the invoice value of £27 10s. 0d., and were taken into Stock at £25, but the returns were not entered in the books until the following month.

(4) June 29.—The acceptance of Badart Frères to Johnson & Co.'s draft for £220 payable in Paris, and which had been discounted, was dishonoured. The acceptance was worthless, and the bankers debited Johnson & Co.'s account on the 1st July.

Show how the adjusting entries should be made in J. Johnson & Co.'s books at the 30th June.—(*Chartered Accountants.*)

13. What, in your opinion, are the advantages and disadvantages of Card Ledgers? Lay down a short set of rules for the control of the cards and the guidance of the book-keeper.—(*Chartered Accountants.*)

14. From the following statement make out Trading Account, Profit and Loss Account, and Balance Sheet for the Motor Manufacturing Company, Limited, for the year ending 31st December.

Write off the whole of Preliminary Expenses and depreciate Plant and Machinery, Office Furniture, Patterns and Patents at a uniform rate of 7½% per annum.

Add £2,000 to the Sinking Fund for redemption of Debentures and leave the Reserve for Bad and Doubtful Debts at 5% on Sundry Debtors.

Stock on hand at the above date was taken at £10,087.

Nominal Capital 80,000 Shares of £1 each	£80,000	Cash at Bank on deposit	£12,000
Subscribed Capital 60,000 Shares of £1 each fully called	60,000	Balance to Credit of Profit and Loss (1st Jan.)	890
Calls in Arrear	1,000	Bills Payable	15,500
Freehold Premises	18,000	Sales	122,000
Plant and Machinery	20,000	Purchases	62,100
Interim Dividend paid	2,000	Reserve for Bad and Doubtful Debts	2,250
Debentures, 5%	20,000	Preliminary Expenses	400
Stock (1st January)	18,750	Sinking Fund for redemption of Debentures	8,000
Office Furniture	625	N.B.—This is represented by Investments to an equal amount, and there is one year's interest on them at 3½% per annum due, but unpaid, at the date of making up these accounts.	
Patterns	6,250		
Patents	3,750		
Goodwill	12,000		
Sundry Debtors	37,500		
„ Creditors	16,800		
Cash in hand	150		
Cash at Bank Current Account	3,000		

Manufacturing Wages	£30,000	General Expenses	£475
Repairs and Renewals	1,300	Discounts Allowed	2,120
Coal	2,225	„ Received	1,780
Gas and Water	175	Directors' Fees	525
Rates, Taxes and Insurance	1,250	Royalties paid	450
Office Salaries	1,000	Interest on Bank Deposit	300
Travelling Expenses	1,325	Bad Debts	150
		Debenture Interest	1,000

—(*National Union of Teachers.*)

CHAPTER XV

MANUFACTURING ACCOUNTS, PERCENTAGE TRADING AND PROFIT AND LOSS ACCOUNTS, WORKING ACCOUNTS; COST BOOK MINING COMPANY

SINCE the manufacturing and selling departments of a business can be kept separate, it is only natural that a manufacturer's accounts should be divided in such a manner as to afford him the greatest possible information. Where only one commodity is being produced, a Manufacturing Account will serve a useful purpose; but where numerous articles are being manufactured that have little or nothing in common, a system of Cost Accounts must be designed, in order that the cost of each separate article may readily and accurately be ascertained.

MANUFACTURING ACCOUNT

Definition.—A Manufacturing Account is an account drawn up to ascertain the prime cost of an article or goods that have been manufactured. It therefore deals, strictly speaking, only with raw materials, the charges thereon, and *direct* manufacturing expenses such as productive wages. "Manufacturing Account" is a general designation, specific terms being in use in certain cases.

Prime Cost, Oncost, Cost of Production.—These terms, when used by accountants, have not always the same signification. **Prime Cost** is generally taken to mean the cost of raw materials, *plus* charges thereon, *plus* productive wages. **Oncost** is a term used to denote all expenses consequent upon or incidental to production and distribution. These expenses together with the "loading" or profit are added to the prime cost in order to arrive at the selling price. Selling price is, therefore, prime cost + oncost + profit. In some cases, however, oncost is divided into two classes, factory and general. **Factory Oncost** includes all expenses directly or indirectly connected with production, viz., Rent, Rates and Taxes of factory; Motive Power, Gas, Fuel, Water, Lighting and Heating of factory; Patent Fees, Wayleaves, and Royalties on manufacture; Wages and Salaries of foremen, timekeepers, watchmen, etc.; Repairs, Renewals and Depreciation of Machinery, Tools, etc.; Interest on Capital outlay on Plant, Machinery, Tools, Land, and Buildings. **General Oncost** includes all selling, distribution, and administration expenses. In such cases factory oncost forms part of the prime cost, or, as many

accountants then prefer to call it, cost of production. Selling price is, therefore, cost of production (prime cost + factory oncost) + general oncost + profit. We must content ourselves with merely mentioning these matters here as they are more fully dealt with in a subsequent chapter on Cost Accounts.

The following *pro formâ* examples will serve to illustrate the subject more clearly :—

Example 1 :—

MANUFACTURING ACCOUNT

Dr. (*a*) PRIME COST ACCOUNT. *Cr.*

To Stocks at start—				By Stocks at finish—			
Raw Materials . .	6,500	16	6	Raw Materials . .	5,025	12	3
Partly Manufactured Goods . . .	8,056	2	10	Partly Manufactured Goods . . .	10,350	11	7
„ Purchases of Raw Materials . . .	22,520	5	8		15,376	3	10
„ Freight and Carriage on Raw Materials . .	425	14	3	„ Balance (Prime Cost of Goods Manufactured) transferred to Account (*b*) . . .	44,877	7	10
„ Productive Wages .	22,750	12	5				
	60,253	11	8		60,253	11	8

Dr. (*b*) COST OF PRODUCTION ACCOUNT. *Cr.*

To Prime Cost of Goods Manufactured as per Account (*a*) . .	44,877	7	10	By Proportion of Factory Oncost on Partly Manufactured Goods (£10,350 11s. 7d.) carried forward	1,850	9	4
„ Proportion of Factory Oncost on Partly Manufactured Goods (£8,056 2s. 10d.) brt. forward . . .	1,575	12	4	„ Balance (Cost of Production of Goods Manufactured) carried to Trading Account .	53,455	3	4
„ Factory Oncost—							
Rent, Rates, Taxes and Insurance .	1,200	11	6				
Gas, Fuel, Water, Lighting and Heating	1,250	4	9				
Patent Royalties .	325	10	6				
Wages and Salaries .	1,825	3	10				
Repairs, Renewals, and Depreciation of Tools and Machinery, etc.	1,750	5	4				
Interest on Capital Outlay in Plant and Machinery, Tools, Land and Buildings	2,500	16	7				
	55,305	12	8		55,305	12	8

Dr. TRADING ACCOUNT. *Cr.*

To Stock of Manufactured Goods at start .	5,276	5	9	By Sales . £72,255 17 1 *Less* Returns 2,016 6 10	70,239	10	3
„ Manufacturing A/c— Cost of Goods manufactured as per Account (*b*) . .	53,455	3	4	„ Stock of Manufactured Goods at finish .	5,803	13	10
„ Balance (Gross Profit) .	17,311	15	–				
	76,043	4	1		76,043	4	1

Dr PROFIT AND LOSS ACCOUNT. *Cr.*

				By Trading A/c . . .	17,311	15	–

The Manufacturing Account is sometimes made up in *one* account, and in a slightly different form, as follows:—

Dr. MANUFACTURING ACCOUNT. *Cr.*

To Stocks at start—				By Amount transferred to			
Raw Materials . .	6,500	16	6	Trading A/c (Cost of			
Partly Manufactured Goods . . .	8,056	2	10	Goods Manufactured)	53,455	3	4
„ Purchases of Raw Materials . . .	22,520	5	8				
	37,077	5	–				
Less							
Stocks at finish—							
Raw Materials £5,025 12 3							
Partly Manufactured Goods 10,350 11 7							
	15,376	3	10				
	21,701	1	2				
To Carriage and Freight on Raw Materials .	425	14	3				
„ Manufacturing Wages .	22,750	12	5				
Prime Cost of Production	44,877	7	10				
Add Factory Oncost . £8,852 12 6							
+ Proportion on Partly Manufactured Goods b/f . . 1,575 12 4							
10,428 4 10							
– Proportion on Partly Manufactured Goods c/f . . 1,850 9 4							
	8,577	15	6				
Factory Cost of Production	53,455	3	4		53,455	3	4

Gross Profit or Loss on Production.—In the previous examples it will be noticed that the goods produced have been transferred from the Manufacturing Account to the Trading Account *at cost price*. This is the usual practice, the theory being that the Manufacturing Department exists solely for the benefit of the Selling Department, and that the latter is therefore under an implied obligation to take over the factory output at actual cost, whether such cost be higher or lower than current trade prices. In such cases the Manufacturing Account will show neither profit nor loss. Many accountants, however, contend against this practice, and maintain that the Manufacturing Department should be put on a business basis, *i.e.*, that its output should be charged to the

Selling Department *at current trade prices* irrespective of cost. In other words, the Selling Department ought not to be placed at a disadvantage by having to take over goods at a price higher than that at which they could be actually purchased. Special allowance should also be made in the case of any of the goods manufactured not being readily marketable; otherwise the factory profit on these goods is likely to remain an "anticipated" one. In these cases the Manufacturing Account will show a balance, which will represent either profit or loss on production, and will be transferred to Profit and Loss Account. By this means it will be seen whether the Manufacturing Department is a profitable one; and if not, it can be closed down, unless by further economies it will become possible to cheapen production. The gross profit or loss on production must not be confused with the gross profit or loss on sales, as the two are quite different. The following example, worked according to the above method, will show clearly the principles involved:—

MANUFACTURING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

To Stocks at start—							
Raw Materials	6,500	16	6				
Partly Manufactured Goods	8,056	2	10	By Trade Price of Goods manufactured, transferred to Trading A/c	58,981	13	10
„ Purchase of Raw Materials	22,520	5	8				
	37,077	5	–				
Less. Stocks at finish—							
Raw Materials £5,025 12 3							
Partly Manufactured Goods 10,350 11 7							
	15,376	3	10				
	21,701	1	2				
To Carriage and Freight on Raw Materials	425	14	3				
„ Manufacturing Wages	22,750	12	5				
Prime Cost of Production	44,877	7	10				
Add Factory Oncost £8,852 12 6							
+ Proportion on Partly Manufactured Goods b/f 1,575 12 4							
	10,428 4 10						
– Proportion on Partly Manufactured Goods c/f 1,850 9 4							
	8,577	15	6				
Factory Cost of Production	53,455	3	4				
To Balance (*Gross Profit on Production*)	5,526	10	6				
	58,981	13	10		58,981	13	10

Dr. **TRADING ACCOUNT.** *Cr.*

To Stock of Manufactured Goods at start . .	5,276	5	9	By Sales . £72,255 17 1 *Less* Returns 2,016 6 10	70,239	10	3
„ Manufacturing A/c (Trade Price of Goods produced) . . .	58,981	13	10				
	64,257	19	7				
Less Stock of Manufactured Goods at finish . .	5,803	13	10				
Prime Cost of Sales .	58,454	5	9				
To Balance (*Gross Profit on Sales*)	11,785	4	6				
	70,239	10	3		70,239	10	3

Dr. **PROFIT AND LOSS ACCOUNT.** *Cr.*

				By Manufacturing A/c . . „ Trading A/c . . .	5,526 11,785	10 4	6 6
					17,311	15	–

Example 2.—From the following particulars prepare Manufacturing Account (showing cost of pig iron produced), and Trading Account for the year ended 31st Dec. :—

	£	s.	d.
Stocks at 1st Jan. :—			
Pig Iron	28,401	16	8
Limestone	301	16	9
Coal and Coke	1,729	15	5
Iron Ore	1,628	10	4
Purchases during Year :—			
Coal and Coke	29,173	14	2
Limestone	4,016	2	11
Iron Ore	16,415	11	2
Sales of Pig Iron during year	102,617	13	6
Expenses during the year :—			
Furnace Wages	9,266	10	8
Carriage Inwards	2,427	9	5
Repairs and Renewals of Furnaces . .	2,906	14	2
Stocks at 31st Dec. :—			
Pig Iron	38,153	12	8
Limestone	415	6	7
Coal and Coke	1,841	11	3
Iron Ore	1,841	11	5

We must first of all ascertain how much of each raw material

has been used in manufacturing. This information is obtained from the Ledger Account of each raw material, as follows :—

Dr. IRON ORE. *Cr.*

19..					19..				
Jan. 1	To Balance .	1,628	10	4	Dec. 31	By Stock c/d . .	1,841	11	5
Jan.-Dec.	„ Purchases . .	16,415	11	2	„	„ Balance (amount used) transferred to Manufacturing Account . .	16,202	10	
		18,044	1	6			18,044	1	6
19.. Jan. 1	To Balance b/d .	1,841	11	5					

Dr. LIMESTONE. *Cr.*

19..					19..				
Jan. 1	To Balance . .	301	16	9	Dec. 31	By Stock c/d . .	415	6	7
Jan.-Dec.	„ Purchases . .	4,016	2	11	„	„ Balance (Amount used transferred to Manufacturing Account . .	3,902	13	1
		4,317	19	8			4,317	19	8
19.. Jan. 1	To Balance b/d .	415	6	7					

Dr. COAL AND COKE. *Cr.*

19..					19..				
Jan. 1	To Balance . .	1,729	15	5	Dec. 31	By Stock c/d . .	1,841	11	3
Jan.-Dec.	„ Purchases . .	29,173	14	2	„	„ Balance (Amount used) transferred to Manufacturing Account . .	29,061	18	4
		30,903	9	7			30,903	9	7
19.. Jan. 1	To Balance b/d. .	1,841	11	3					

We are now in a position to construct the Manufacturing and Trading Accounts, as follows :—

Dr. MANUFACTURING ACCOUNT. *Cr.*

19..					19..				
Dec. 31	To Amounts Consumed :—				Dec. 31	By Transfer to Trading A/c (Cost of Pig Iron produced)	63,767	15	9
	Iron Ore . .	16,202	10	1					
	Limestone . .	3,902	13	1					
	Coal and Coke .	29,061	18	4					
	„ Furnace Wages .	9,266	10	8					
	„ Carriage Inwards .	2,427	9	5					
	„ Repairs and Renewals of Furnaces . .	2,906	14	2					
		63,767	15	9			63,767	15	9

Dr. **TRADING ACCOUNT.** *Cr.*

19..					19..				
Jan. 1	To Stock of Pig Iron	28,401	16	8	Dec. 31	By Sales of Pig Iron	102,617	13	6
Dec. 31	„ Amount transferred from Manufacturing A/c (Cost of Pig Iron produced)	63,767	15	9	„	„ Stock of Pig Iron	38,153	12	8
„	„ Balance (Gross Profit)	48,601	13	9					
		140,771	6	2			140,771	6	2

The Manufacturing Account is sometimes drawn up in tabular form, as on next page.

Sub-Manufacturing Accounts.—As previously mentioned, the title "Manufacturing Account" is only a general description. In many businesses there are sub-manufacturing accounts, each of which is designated by the name of its particular process or stage of manufacture.

Example 3:—

EXCELSIOR COTTON MILLS, LTD.

SPINNING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

To Cotton	87,352	3	2	By Sale of—			
„ Brokerage, Charges, etc.	303	18	6	Yarns	6,985	14	2
„ Freight and Carriage	1,315	3	2	Waste	2,750	10	5
„ Wages and Salaries	18,116	5	9	Sundries	401	17	8
„ Coals	2,068	15	5	„ Balance—transferred to Trading A/c	106,022	14	10
„ Oil, Tallow, etc.	326	9	6				
„ Gas, Electric Light, and Water	295	14	11				
„ Cards, Ropes, Roller Leather and Cloth	804	15	7				
„ Skips, Bobbins, and Skewers	215	16	4				
„ Brushes, Starch and Banding	317	12	8				
„ Strapping and Laces	142	6	7				
„ Packing, Paper and Twine	328	3	11				
„ Rates, Taxes and Insurance	471	13	2				
„ Mill Charges and Sundry Stores	227	10	5				
„ Horse and Stable Expenses	274	5	11				
„ Repairs to Buildings, Engines, Boilers, Gearing, etc.	1,365	12	8				
„ Depreciation of Plant and Machinery	2,234	9	5				
	116,160	17	1		116,160	17	1

MANUFACTURING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	Iron Ore.	Limestone.	Coal and Coke.	Total.		
To Production :—						
Stocks, 1st Jan. . .	1,628 10 4	301 16 9	1,729 15 5			
Add Purchases . .	16,415 11 2	4,016 2 11	29,173 14 2			
	18,044 1 6	4,317 19 8	30,903 9 7			
Less Stocks, 31st Dec. .	1,841 11 5	415 6 7	1,841 11 3			
Materials Consumed .	16,202 10 1	3,902 13 1	29,061 18 4	49,167 1 6		
„ Carriage Inwards . .				2,427 9 5		
„ Furnace Wages . .				9,266 10 8		
„ Repairs and Renewals of Furnaces . . .				2,906 14 2		
				63,767 15 9		

By Transfer to Trading Account (Cost of Pig Iron produced)	63,767 15 9
	63,767 15 9

Note.—Other common terms for the above Account are: "Furnaces Account," "Working Account," "Pig Iron Production Account."

WEAVING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

To Purchase of Yarns, etc.	4,027	3	10	By Sale of Waste	127	13	2
„ Freight and Carriage	795	13	6	„ „ „ Sundries	98	14	5
„ Wages and Salaries	29,650	7	4	„ Balance—Transfer to Trading A/c	41,545	18	5
„ Coals	1,058	13	6				
„ Tallow, Oils, Waste, etc.	185	11	4				
„ Gas, Electric Light and Water	138	7	5				
„ Shuttles, Pickers, Picking Bands, etc.	516	8	3				
„ Reeds, Combs, and Healds	325	11	9				
„ Brushes and Sundries	99	15	2				
„ Strapping and Laces	87	16	7				
„ Skips, Bobbins, and Skewers	107	4	5				
„ Flour and Sizing Materials	1,628	5	10				
„ Rates, Taxes, and Insurance	245	9	2				
„ Mill Charges and Sundry Stores	206	5	4				
„ Horse and Stable Expenses	97	11	3				
„ Repairs to Buildings, Engines, Boilers, Gearing, etc.	495	6	9				
„ Depreciation of Plant and Machinery	2,106	14	7				
	41,772	6	–		41,772	6	–

TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

To Stocks of Cloth, 1st Jan.—				By Sales of Cloth—			
At Mills £41,306 18 5				Grey . £60,516 14 2			
At Warehouse 72,617 1 8				White 162,726 13 8			
At Bleachers and Dyers 8,340 1 3				Dyed . 13,087 3 5			
	122,264	1	4		236,330	11	3
„ Goods purchased	8,716	12	8	„ Sales of Bought Goods	9,916	13	8
„ Bleaching, Dyeing, and Printing	28,502	3	11	„ Stocks of Cloth, 31st Dec.—			
„ Carriage	345	13	9	At Mills £40,598 12 7			
„ Packing	265	14	6	At Warehouse 74,503 2 5			
„ Spinning A/c—amount trans. £106,022 14 10				At Bleachers & Dyers 10,404 1 3			
„ Weaving A/c—amount transferred 41,545 18 5					125,505	16	3
	147,568	13	3				
„ Balance (Gross Profit)	64,090	1	9				
	371,753	1	2		371,753	1	2

Discounts on Purchases.—In accounts such as the foregoing Spinning and Weaving Accounts, and also in others, the Discounts on Purchases are often credited to the Manufacturing Department, or if there is more than one, apportioned between them. Such

discounts are in effect a reduction of the Purchases to the absolute net figures, and hence appear in the Manufacturing Account either as a separate credit or as a deduction from the Purchases themselves.

Combined Manufacturing and Trading Account.—In some cases, the Manufacturing and Trading Accounts are merged into one account under the heading of either "Manufacturing and Trading Account" or simply "Manufacturing Account," the balance of which is called the gross profit, and is transferred to the Profit and Loss Account. In such cases Depreciation of Plant will be entered in the Manufacturing Account instead of in the Profit and Loss Account.

Example 4 :—

THE OUTHORN BRICK WORKS, LIMITED.

MANUFACTURING AND TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

To Coal Consumed			1,645	19	6	By Stock of Bricks, 31st Dec.	£673 14 8		
,, Stores Consumed			287	4	10	,, Brick Sales for year	9,506 10 5		
,, Rations			796	13	2		10,180 5 1		
,, Wages			2,851	10	6	*Less* Stock of Bricks, 1st Jan.	957 1 2		
,, Stable Expenses			10	5	4				
,, Rent			150	–	–				
,, Carriage Inwards			463	9	8				
,, Repairs and Renewals			257	16	7				
,, Medical Fees			10	10	–			9,223	3 11
,, Depreciation—									
Plant	£93 4 8								
Machinery	187 13 6								
Kilns	216 9 11								
Pumping Plant	10 7 2								
Railway Siding	14 15 4								
			522	10	7				
,, Balance (Gross Profit)			2,227	3	9				
			9,223	3	11			9,223	3 11

TRADING AND PROFIT AND LOSS ACCOUNTS, PERCENTAGES

Indispensable as is the ascertaining of the exact cost of production to the manufacturer, not less important and essential, to both the manufacturer and the trader, is the knowledge of the ratio which such cost and the various expenses bear to the turnover. Cost must be definitely known in order to be able to fix, with any degree of certainty, remunerative selling prices for goods. Where the trader has past records of the exact percentage that each item of expense bears to the turnover, he is in a vastly improved position for tendering for applicants' and advertisers' requirements. Estimates have to be given which, owing to the severe competition of the present day, must necessarily be as low as possible; and though the prices have to be cut very fine, yet they

must be such as to leave the manufacturer or trader a definite margin of profit.

Advantages of Percentages.—It will be obvious to the student that, in order to compare things that have no apparent points of resemblance, we must first of all bring them to some common basis. Let us take a familiar illustration from arithmetic. The student is asked, we will suppose, to compare the following fractions :—

$$\frac{4}{217} \quad \frac{3}{124} \quad \frac{2}{93} \text{ and } \frac{1}{31}.$$

In their present form a real comparison is impossible ; but when we reduce them to a common denominator we get the following :—

$$\frac{48}{2604} \quad \frac{63}{2604} \quad \frac{56}{2604} \quad \frac{84}{2604}$$

We can now easily see that the first fraction is the smallest and the last fraction the greatest—a conclusion impossible to judge when they stood in their original form. Now let us apply our illustration to the subject matter under consideration. Conclusions drawn from a *primâ facie* inspection of £ s. d. figures may be very misleading. We will suppose that we are asked to compare the first two years' trading results of a merchant ; which are as follows :—

1st Year.	*2nd Year.*
Turnover, £20,000 ;	Turnover, £25,000 ;
Gross Profit, £4,500.	Gross Profit, £5,000.

At first sight we might be inclined to say that the second year was the better year, and for two reasons : (1) because there was a larger turnover, (2) because there was an increased gross profit. And the argument is very plausible. Now let us reduce these two profits to a common basis, *i.e.*, reduce each profit to its relative percentage of turnover. We then have the following results :—

1st Year.	*2nd Year.*
Percentage of Gross Profit on Turnover	Percentage of Gross Profit on Turnover
$= \frac{4500 \times 100}{20{,}000}$	$= \frac{5{,}000 \times 100}{25{,}000}$
$= 22\frac{1}{2}\ \%$	$= 20\ \%$

It can now easily be seen that our *primâ facie* conclusion, that the second year was the better one, is to some extent false. Notwithstanding the fact that the turnover was *larger* and the gross profit *increased*, yet the *rate of gross profit* has actually *decreased* by $2\frac{1}{2}$ per cent. This must have been because more has been paid for the goods, or the goods have not been sold at so good an advantage in the second year as in the first.

Prime Cost of Goods Sold.—When looking at a Trading Account prepared in the ordinary form, it appears difficult to arrive at the cost value of the goods actually sold, owing to the difference in the stocks. If the stocks at commencement and close of the trading

period were exactly the same, they could be ignored; one would balance the other, and they would not therefore affect the calculation. But when the opening and closing stocks differ by a considerable sum, either increase or decrease, this difference must obviously be taken into consideration. A moment's reflection, however, will show us that the stocks can quite properly be merged in the purchases. Stock at the commencement is really *last* year's purchases unsold; stock at the end is really *this* year's purchases unsold. The Trading Account is, therefore, prepared in a slightly different form. The initial stock is added to the purchases, and the final stock deducted from them, and thus we arrive at the prime cost of the goods actually sold during the trading period under review.

Turnover.—Generally speaking, the value of the turnover is obtained by taking the gross Sales and deducting therefrom the Sales Returns. In some businesses, however, Work in Progress appears in the Trading Accounts. In such cases, if it is desired to adopt the percentage method, the Work in Progress at the end must be *added* to the Sales, and the Work in Progress at the commencement *deducted* from them, in order to arrive at the correct value of the turnover for the period.

Output (or Production).—The value of the output (or production) in a productive business is arrived at as follows :—

Sales of Finished Goods (say)	£38,753	16	11
Add Stock at end	5,427	18	5
	44,181	15	4
Less Stock at commencement	4,916	12	10
Value of Output	£39,265	2	6

Example.—From the following particulars prepare Trading and Profit and Loss Accounts showing percentages of gross and net profit and expenses on turnover :—

Stock, 1st Jan.	£7,126	4	11
Purchases, *less* Returns	11,126	14	5
Sales *less* Returns	21,627	16	2
Salaries	497	2	10
Commission	316	13	8
Wages	3,167	12	5
Advertising	308	5	6
Discount *Dr.*	372	11	5
Carriage Inwards	816	4	3
Rent, Rates, and Taxes	362	17	9
Carriage Outwards	316	12	10
Trade Expenses	398	16	2
Bad Debts	318	5	3
Depreciation	372	14	7
Interest on Capital	230	15	3
Stock, 31st Dec.	7,584	14	6

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19.. *Cr.*

	Per ct. on Sales.					Per ct. on Sales.			
To Stock, 1st Jan.		7,126	4	11	By Sales (net)	100.00	21,627	16	2
„ Purchases (net)		11,126	14	5					
		18,252	19	4					
Less Stock, 31st Dec.		7,584	14	6					
Prime Cost of Sales	49.32	10,668	4	10					
„ Carriage Inwards	3.77	816	4	3					
„ Wages	14.65	3,167	12	5					
„ Balance (Gross Profit)	32.26	6,975	14	8					
	100.00	21,627	16	2		100.00	21,627	16	2
To Salaries	2.30	497	2	10	By Gross Profit b/d	32.26	6,975	14	8
„ Commission	1.46	316	13	8					
„ Advertising	1.43	308	5	6					
„ Discount	1.72	372	11	5					
„ Rent, Rates, and Taxes	1.68	362	17	9					
„ Carriage Outwards	1.46	316	12	10					
„ Trade Expenses	1.85	398	16	2					
„ Bad Debts	1.47	318	5	3					
„ Depreciation	1.72	372	14	7					
„ Interest on Capital	1.07	230	15	3					
„ Balance (net profit)	16.10	3,480	19	5					
	32.26	6,975	14	8		32.26	6,975	14	8

WORKING ACCOUNTS

Definition.—A Working Account is an account drawn up to ascertain the working, or gross, profit arising from some industrial enterprise, either productive or non-productive. In productive enterprises, such as mines, quarries, plantations, newspapers, etc., a Working Account corresponds very closely to the Cost of Production Account of a manufacturer. In non-productive enterprises, such as canals, steamships, railways, hotels, etc., a Working Account is similar to a Revenue Account or Income and Expenditure Account, and sometimes also to a Trading Account. The term "Working Account" is merely a general designation, specific titles being in use in certain cases.

It is quite impossible to be exhaustive, but the following selected examples will amply repay the student's careful attention.

Example No. 2 is also called a "Crop Cost Account." Similar accounts are drawn up on tea, coffee, cocoa, cotton, and rubber plantations.

Example 1 :—

THE WETTER GOLD MINING COMPANY, LTD.

Dr. MINE WORKING ACCOUNT. *Cr.*

To Ore Extraction—Expenses of Mining	43,278	9	2	By Bullion A/c			257,356	14	6
„ Reduction of Ore—				„ Tailings A/c			2,306	4	10
Milling	17,605	13	7						
Concentrating	10,987	6	8						
Cyaniding	45,703	12	10						
Tramming	5,196	8	3						
„ Concession Rents paid	700	–	–						
„ Royalties paid	3,617	16	5						
„ Prospecting Expenses	1,134	2	6						
„ Claim Expenses	1,856	11	9						
„ Wages at Mine	4,178	13	6						
„ General Charges at Mine	2,615	4	11						
„ Mint and Bank Charges on Bullion	1,562	10	4						
„ Depreciation of Works, Machinery, and Plant	5,956	13	7						
„ Balance (Gross Profit)	115,269	15	10						
	259,662	19	4				259,662	19	4

Example 2 :—

REVALLA TOBACCO PLANTATIONS, LTD.

Dr. PLANTATION WORKING ACCOUNT. *Cr.*

To Plantation Wages—Planting	13,308	15	5	By Proceeds of Sale of Tobacco			62,916	15	3
Manufacturing	4,622	3	6						
„ Plantation Salaries—European Staff	7,234	6	7						
Native Overseers	2,138	5	8						
Native Watchmen	942	13	6						
„ Coolie Expenses (Brokerage, Passage Money, etc.)	3,024	2	11						
„ Hospital Working Expenses	1,035	13	5						
„ Transport Expenses	1,041	5	3						
„ General Plantation Expenses	1,017	4	8						
„ Stable Expenses	625	8	6						
„ Loss (by death) of Advances to Coolies	540	3	6						
„ Wastage of Live Stock (Ponies, Bullocks, etc.)	526	12	4						
„ Commission on Sale of Tobacco	3,316	9	2						
„ Repairs, Renewals, and Depreciation—Railway	156	8	3						
Steam Launch, Lighters, etc.	391	15	1						
Loose Tools	350	10	4						
Pier, Wharf, etc.	284	9	5						
Ways, Roads, etc.	1,430	11	2						
Buildings, etc.	3,608	15	4						
„ Balance (Gross Profit)	17,321	1	3						
	62,916	15	3				62,916	15	3

Example 3 :—

THE "DAILY BUGLE" NEWSPAPER COMPANY, LTD.

Dr. PRODUCTION ACCOUNT. *Cr.*

To Paper used	8,657	14	3	By Sales—Cash	716	15	4
„ Ink used	506	10	8	„ Sale to Agents, *less* Discounts and Returns	15,327	10	3
„ Compositors' and Machining Wages	4,316	17	6	„ Sales to Subscribers, *less* Postages & Wrappers	2,237	18	6
„ Cost of Literary Contributions	1,026	3	6		18,282	4	1
„ Reporters' and Office Salaries	4,856	13	6	„ Advertisements	18,756	12	10
„ Editors' Salaries	1,500	–	–	„ Sales of Waste Paper	226	13	8
„ Newsagency Telegrams	255	8	2	„ Jobbing Printing Sales	88	14	8
„ Petty Expenses	65	15	7				
„ Gas, Electric Current, and Fuel	506	10	8				
„ Repairs and Renewals	320	9	4				
„ Depreciation of Machinery, Plant, and Stereos	245	10	–				
„ Depreciation of Linotype Installation	75	–	–				
„ Rates, Taxes, and Insurance of Works	164	8	6				
„ Balance (Gross Profit)	14,857	3	7				
	37,354	5	3		37,354	5	3

Accounts similar to the above are also drawn up in Trading and Profit and Loss Account form.

Example 4 :—

THE ELBURY STEAM TRAWLER COMPANY

Dr. WORKING ACCOUNT. *Cr.*

To Coal and Oil	156	17	4	By Sales of Fish	1,036	15	8
„ Repairs and Renewals	85	14	3	„ Sale of Old Rope, etc.	1	6	10
„ Landing Dues	12	5	6				
„ Harbour Dues	10	3	7				
„ Wages—General	156	4	8				
„ do. Fishermen	163	12	4				
„ do. Casual Labour	22	10	6				
„ Commission	20	–	–				
„ Ropes, Stores, etc.	53	2	10				
„ Net Braiding, Mending, and Tarring	16	19	5				
„ Carpentering	14	3	6				
„ Painting	12	9	2				
„ Salvage Claims	23	14	6				
„ Balance (Gross Profit)	290	4	11				
	1,038	2	6		1,038	2	6

Accounts similar to the above are sometimes drawn up in Revenue Account form, also in Trading and Profit and Loss Account form.

Example 5 :—

LEEKLEY CANAL COMPANY

Dr. **WORKING ACCOUNT.** *Cr.*

To Maintenance, Dredging, and Ice-Breaking .	3,617	14	2	By Toll Traffic Receipts .	7,516	13	8
„ Rents Payable . .	2,016	3	6	„ Freight „ „ .	14,608	5	10
„ Rates, Taxes, and Insurance . . .	1,426	16	3		22,124	19	6
„ General Charges . .	1,319	2	9	*Less* Traffic Expenses	12,016	14	3
„ Depreciation of Boats, Horses, and Carrying Plant . . .	896	8	10	Net Traffic Receipts .	10,108	5	3
„ Balance (Gross Profit) .	4,774	18	1	„ Rents Receivable . .	3,856	13	6
				„ Miscellaneous Receipts	86	4	10
	14,051	3	7		14,051	3	7

Accounts similar to the above are sometimes drawn up in Income and Expenditure Account form, also in Revenue Account and Net Revenue Account form.

Example 6 :—

OCEAN NAVIGATION COMPANY, LTD.

Dr. **WORKING ACCOUNT.** *Cr.*

To Navigation Expenses—Coal, Oil, and Water .	655,000	5	11	By Passage Money . .	1,096,520	10	6
Dues, Towage, Pilotage, etc. . . .	184,620	2	6	„ Freight, Charters, and Miscellaneous Services	1,484,201	5	3
Pay of Officers and Crew	316,680	15	6	„ Government Contract Services—India, China, Australia . . .	285,000	–	–
„ Provisioning of Passengers, Officers, and Crew	305,029	13	4	„ Compensation from Argentine Government for seizure of s.s. *Eastern Star*	12,000	–	–
„ Suez Canal Dues . .	326,156	12	9				
„ Miscellaneous Expenses—Damages, Claims, and Law Charges . .	15,000	–	–				
Expenses of Steamers laid up . . .	10,626	16	8				
Quarantine Charges .	1,950	15	6				
„ Ships' Repairs, Stores, and General Maintenance Charges . .	176,320	4	8				
„ Insurance Charges and General Average Claims . . .	20,627	10	6				
„ Depreciation of Fleet, etc.	345,000	–	–				
„ Balance (Gross Profit) .	520,710	18	5				
	2,877,721	15	9		2,877,721	15	9

Accounts similar to the above are sometimes drawn up in Trading and Profit and Loss Account form.

Example 7 :—

THE "NORMLEY" HOTEL, LTD.

Dr. WORKING ACCOUNT. *Cr.*

To Consumption of—				By Amounts charged to Customers—			
Groceries and Provisions	4,670	12	8	Groceries and Provisions	6,763	10	6
Wines, Spirits, and Liqueurs	4,356	7	3	Wines, Spirits, and Liqueurs	6,857	12	8
Ale, Beer, and Minerals	2,017	8	4	Ale, Beer, and Minerals	3,169	14	9
Tobacco, Cigars, and Cigarettes	1,156	16	5	Tobacco, Cigars, Cigarettes	1,654	3	10
Sundry Stores	275	10	9	Apartments, Attendance, and Baths	12,079	5	6
„ Wages and Salaries	5,230	7	6	„ Bar Receipts	1,168	19	4
„ Licences and Insurances	1,036	5	9	„ Billiard Room Receipts	512	11	7
„ Newspapers, Magazines, Printing, & Stationery	327	13	4	„ Stable and Garage Receipts	308	10	5
„ Coals, Gas, and Lighting	673	12	10				
„ Repairs and Renewals of Buildings	237	14	6				
„ Laundry	365	10	2				
„ Stable and Garage Expenses	256	7	5				
„ Rent, Rates, and Taxes	1,265	10	6				
„ Repairs, Renewals, and Depreciation—							
Furniture and Fittings	321	16	4				
Cutlery and Plate	186	15	6				
House, Bed, and Table Linen	126	13	8				
China and Glass	147	4	3				
„ Balance (Gross Profit)	9,862	1	5				
	32,514	8	7		32,514	8	7

Accounts similar to the above are also prepared in Trading and Profit and Loss Account form.

COST BOOK MINING COMPANY

Definition.—A Cost Book Mining Company is a company formed for the purpose of working tin mines in Devon and Cornwall. It is governed by the Stannaries Acts, 1869 and 1887 (Latin, *stannum* = tin). A company is formed by a certain number of persons taking shares. A principal agent or secretary is appointed, called in the Acts a "purser," who manages the affairs of the mine. A Cost Book Mining Company is not a partnership within the meaning of the Partnership Act, 1890, nor a joint stock company within the meaning of the Companies Acts ; it seems to occupy an intermediate position.

Statutory Requirements.—The purser must keep a Cost Book and enter therein the names and addresses of the shareholders, the number of shares held by them, and the amount paid up thereon. In the same book he must also record the minutes of all meetings, and enter all receipts and payments and liabilities. Every sixteen weeks (at least) the purser must convene an ordinary meeting of the shareholders to transact the business of the mine. The accounts must be laid before the shareholders, who, if a profit has been

made, declare a dividend. After the meeting the accounts must be printed, and a copy sent to each shareholder, and also to the lessors of the mine.

Calls, Forfeiture, and Relinquishing of Shares.—By section 11 of the 1869 Act, a company may make a call for the purpose of defraying the whole or any portion of the estimated expenses to be incurred. It may allow discount, not exceeding 5 per cent., for prompt payment of the call; it may charge interest at 5 per cent. and expenses on calls in arrear; and it may also forfeit shares for non-payment of calls. Shares may also be relinquished or transferred by the shareholder paying to the purser his share of the liabilities to date. Shares forfeited must be carried to an account to be called "The Account of Forfeited Shares"; and shares relinquished must be carried to an account to be called "The Account of Relinquished Shares." Forfeited and relinquished shares become the absolute property of the company, which may dispose of them as it thinks fit. Shares transferred must also be recorded in the Cost Book.

Mine Club Fund.—By the Stannaries Act, 1887, section 13:—

All moneys deducted in any mine from the wages or earnings of or otherwise contributed by the miners for the purposes of a mine club, or accident, or sick or benefit fund, shall, unless a majority of the miners shall by resolution decide otherwise, be deemed to belong to the miners and not to the company, and the said moneys, and any contributions added thereto by the shareholders, shall be placed to a separate account, and the details thereof, showing the amount received and the several payments thereout, and to whom made during each preceding sixteen weeks, shall be sent out in the balance sheet to be presented to the shareholders at each ordinary meeting; and a copy of the same shall be posted in the miner's dry or changing sheds, and in the account house. . . . . .

QUESTIONS ON CHAPTER XV

1. What is a Manufacturing Account? With what items does it deal?
2. Explain the meaning of the terms "prime cost" and "cost of production."
3. What is meant by "oncost"? What are its two usual divisions?
4. What expenditure is included under (*a*) factory oncost, (*b*) general oncost?
5. At what price should goods manufactured in one's own factory be charged to the Selling Department? What different views are there on this point?
6. What is meant by a sub-Manufacturing Account, and when is such an account used?
7. What is the object of "percentage" Trading and Profit and Loss Accounts? What advantages do they offer?
8. How can we arrive at the prime cost of the goods actually sold during a certain period, when the Stock at commencement and finish thereof differs by a considerable amount? How are the values of the turnover and output arrived at when there is Work in Progress at start and finish of the trading period?
9. Define the term Working Account. To what other forms of accounts are Working Accounts in many cases similar?

10. What is a Cost Book Mining Company? Explain the terms "purser," "Stannaries Acts," "forfeited shares," "relinquished shares," "mine club fund." What are the statutory requirements with reference to the keeping of accounts?

EXERCISE XV

1. From the following particulars draw up in both forms a Manufacturing Account and a Trading Account, and carry the balances in each case to a Profit and Loss Account:—

Stocks, 1st Jan.:—	
Raw Materials	£6,273 11 4
Partly Manufactured Goods	7,985 12 6
Oncost on above	1,396 18 5
Finished Goods	5,674 13 9
Stocks, 31st Dec.:—	
Raw Materials	4,916 13 2
Partly Manufactured Goods	10,408 16 5
Oncost on above	1,742 13 6
Finished Goods	5,509 10 6
Purchases of Raw Materials	22,437 16 3
Freight and Carriage on above	459 3 8
Productive Wages	22,587 18 2
Factory Oncost:—	
Rent, Rates, Taxes, and Insurance	1,312 12 5
Gas, Fuel, Water, Lighting, and Heating	1,198 13 6
Patent Royalties	306 5 9
Wages and Salaries	1,910 10 3
Repairs, Renewals, and Depreciation of Tools, Machinery, etc.	1,806 17 8
Interest on Capital Outlay on Plant and Machinery, Tools, Land, and Buildings	2,485 9 4
Sales	73,086 14 2
Sales Returns	2,378 12 7

The trade price of the goods manufactured was £58,472 1s. 8d.

2. From the following particulars prepare Manufacturing Account (showing cost of pig iron produced) and Trading Account for the year ended 31st Dec.:—

Stocks, 1st Jan.:—	
Pig Iron	£29,642 16 7
Limestone	402 10 11
Coal and Coke	1,846 12 9
Iron Ore	1,725 9 6
Purchases during Year:—	
Coal and Coke	28,607 10 5
Limestone	3,743 12 10
Iron Ore	17,023 6 4
Sales of Pig Iron during year	123,350 11 8
Expenses during year:—	
Furnace Wages	8,845 3 11
Carriage Inwards	2,516 10 3
Carriage Outwards	3,308 12 6
Repairs and Renewals of Furnaces	2,847 13 5
Stocks at 31st Dec.:—	
Pig Iron	37,858 11 6
Limestone	383 13 4
Coal and Coke	1,916 12 5
Iron Ore	1,732 6 8

3. From the following particulars prepare (*a*) Spinning Account, (*b*) Weaving Account, (*c*) Trading Account for the year ended 31st Dec. :—

	Spinning Dept.	Weaving Dept.
Cotton	£82,616 10 5	——
Purchase of Yarns, etc.	——	£4,106 12 5
Brokerage Charges, etc.	297 13 8	——
Freight and Carriage	1,187 12 9	763 14 9
Wages and Salaries	17,802 15 4	28,780 15 6
Coals	1,987 11 5	1,127 14 11
Oil, Tallow, Waste, etc.	306 14 8	165 2 9
Gas, Electric Light, and Water	265 10 3	128 16 7
Cards, Ropes, Roller, Leather, and Cloth	786 2 10	——
Skips, Bobbins, and Skewers	208 10 6	114 3 6
Brushes, Starch, and Binding	286 14 7	——
Strapping and Laces	121 16 9	96 12 3
Packing, Paper, and Twine	297 3 8	——
Rates, Taxes, and Insurance	436 3 10	226 13 4
Mill Charges and Sundry Stores	206 14 8	197 10 5
Horse and Stable Expenses	187 6 7	112 4 10
Repairs to Buildings, Engines, Boilers, Gearing, etc.	1,287 14 6	478 13 6
Depreciation of Plant and Machinery	2,206 15 2	2,087 19 5
Sale of Yarns	6,816 12 9	——
„ „ Waste	2,632 5 11	136 15 2
„ „ Sundries	89 14 7	95 6 8
Shuttles, Pickers, Picking Bands, etc.	——	538 10 8
Reeds, Combs, and Healds	——	309 14 6
Brushes and Sundries	——	105 3 10
Flour and Sizing Materials	——	1,594 11 7
Stocks of Cloth :—		
	1st Jan.	31st Dec.
At Mills	£40,785 10 2	£40,753 2 10
At Warehouse	75,016 11 6	76,017 14 8
At Bleachers and Dyers	9,528 16 8	8,426 11 9
Goods purchased		£8,675 10 3
Bleaching, Dyeing, and Printing		28,487 11 5
Carriage		339 16 7
Packing		273 14 8
Sales of Cloth :—		
Grey		61,728 15 6
White		160,906 14 11
Dyed		12,614 13 8
Sales of Bought Goods		9,427 13 6

4. From the following particulars of the " Newbell " Brickworks, prepare a combined Manufacturing and Trading Account for the year ended 31st Dec.—

Coal consumed, £1,897 15s. 2d. ; Stores consumed, £256 7s. 9d. ; Rations, £763 2s. 10d. ; Wages, £2,916 14s. 7d. ; Stable Expenses, £12 3s. 8d. ; Rent, £165 10s. ; Carriage Inwards, £438 12s. 9d. ; Repairs and Renewals, £247 6s. 5d. ; Medical Fees, £12 12s. ; Depreciation—Plant, £106 2s. 11d.; Machinery, £195 13s. 6d. ; Kilns, £203 4s. 7d. ; Pumping Plant, £12 6s. 9d. ; Railway Siding, £10 14s. 5d. ; Brick Sales during year, £9,671 18s. 9d. Stock of Bricks—1st Jan., £972 5s. 10d. ; 31st Dec., £716 15s. 8d.

5. From the following particulars prepare Trading and Profit and Loss

Account, showing percentages of gross and net profit and expenses on turnover :—

Stock, 1st Jan., £8,947 10s. 6d. ; Work in Progress, 1st Jan., £1,263 5s. 1d. ; Purchases *less* Returns, £12,056 3s. 7d. ; Sales *less* Returns, £23,529 16s. 8d. ; Salaries, £486 12s. 5d. ; Commission, £327 5s. 10d. ; Wages, £3,585 16s. 2d. ; Advertising, £326 13s. 7d. ; Discounts, *Dr. balance*, £384 9s. 4d. ; Carriage Inwards, £1,857 10s. 2d. ; Rent, Rates, and Taxes £375 14s. 5d. ; Carriage Outwards, £352 17s. 9d. ; Trade Expenses, £375 11s. 4d. ; Bad Debts, £327 6s. 10d. ; Depreciation, £384 15s. 8d. ; Interest on Capital, £257 11s. 6d. ; Stock, 31st Dec., £9,765 19s. 3d. ; Work in Progress, 31st Dec., £1,628 19s. 2d.

6. From the following particulars of the " Krynx " Gold Mining Co., Ltd., prepare Working Account for the year ended 31st Dec. :—

Ore extraction—Expenses of Mining, £40,825 16s. 7d. ; Reduction of Ore—Milling, £16,517 12s. 8d. ; Concentrating, £10,026 5s. 3d. ; Cyaniding, £44,587 2s. 9d. ; Tramming, £4,866 12s. 11d. ; Concession Rents paid, £600 ; Royalties paid, £3,427 10s. 5d. ; Prospecting Expenses, £1,013 1s. 8d. ; Claim Expenses, £1,768 15s. 3d. ; Wages at Mine, £4,026 4s. 10d. ; General Charges at Mine, £2,347 13s. 6d. ; Mint and Bank Charges on Bullion, £1,428 17s. 5d. ; Depreciation of Machinery and Plant, £5,043 12s. 8d. ; Bullion Account, £246,017 13s. 2d. ; Tailings Account, £2,034 15s. 6d.

7. From the following particulars of the " Koomrie " Tobacco Plantations, Ltd., prepare Working Account for the year ending 31st Dec. :—

Planting Wages, £13,016 14s. 8d. ; Manufacturing Wages, £4,408 12s. 2d. ; Salaries—European Staff, £7,087 3s. 11d. ; Native Overseers, £2,007 16s. 5d. ; Native Watchmen, £896 7s. 10d. ; Coolie Expenses (Brokerage, Passage Money, etc.), £2,956 11s. 6d. ; Hospital Working Expenses, £1,016 4s. 8d. ; Transport Expenses, £1,037 2s. 6d. ; General Plantation Expenses, £1,216 18s. 7d. ; Stable Expenses, £602 10s. 9d. ; Loss (by death) of Advances to Coolies, £536 5s. 2d. ; Wastage of Live Stock, £467 9s. 4d. ; Commission on Sale of Tobacco, £3,026 13s. 3d. ; Repairs, Renewals, and Depreciation—Railway, £167 19s. 5d. ; Steam Launch, Lighters, etc., £346 2s. 9d. ; Loose Tools, £307 14s. 8d. ; Pier Wharf, etc., £265 10s. 6d. ; Ways, Roads, etc., £1,328 11s. 4d. ; Buildings, etc., £3,516 13s. 5d. ; Proceeds of Sale of Tobacco, £60,817 18s. 6d.

8. From the following particulars of the *Western Star* Newspaper Co., Ltd., prepare Working Account (or Production Account) for the year ending 31st Dec. :—

Paper used, £8,516 10s. 2d. ; Ink used, £487 14s. 6d. ; Compositors and Machining Wages, £4,206 15s. 8d. ; Cost of Literary Contributions, £987 14s. 3d. ; Sales—Cash, £707 16s. 8d. ; Agents, less Discounts and Returns, £15,016 2s. 10d. ; Subscribers, less Postages and Wrappers, £2,187 14s. 5d. ; Reporters and Office Salaries, £4,617 10s. 2d. ; Editors' Salaries, £1,400 ; Newsagency Telegrams, £246 18s. 6d. ; Petty Expenses, £72 6s. 10d. ; Gas, Electric Current, and Fuel, £487 13s. 5d. ; Repairs and Renewals, £316 14s. 9d. ; Sales of Waste Paper, £206 14s. 7d. ; Advertisements, £17,950 5s. 8d. ; Jobbing Printing Sales, £80 10s. 3d. ; Depreciation—Plant, Machinery, and Stereos, £236 15s. 7d. ; Linotype Installation, £70 ; Rates, Taxes, and Insurance of Works, £160 14s. 8d.

9. From the following particulars of the " Bexton " Steam Trawler Co., prepare Working Account for the year ending 31st Dec. :—

Coal and Oil, £147 10s. 9d. ; Repairs and Renewals, £80 12s. 5d. ; Landing

Dues, £10 8s. 6d.; Harbour Dues, £8 4s. 3d.; Wages—General, £148 10s. 9d.; Fishermen, £150 6s. 5d.; Casual Labour, £18 14s. 7d.; Commission, £20; Repairs, Stores, etc., £50 13s. 6d.; Net Braiding, Mending and Tarring, £14 11s. 5d.; Carpentering, £12 9s. 7d.; Painting, £11 8s. 4d.; Salvage Claims, £20 16s. 5d.; Sales of Fish, £994 8s. 10d.; Sale of Old Rope, etc., £1 3s. 11d.

10. The following Balances are extracted from the books of the "Oversley" Canal Co. You are required to draw up the Working Account for the year ending 31st Dec.:—

Maintenance, Dredging, and Ice Breaking, £3,506 13s. 8d.; Rents Payable, £1,857 10s. 6d.; Rates, Taxes, and Insurance, £1,314 14s. 5d.; General Charges, £1,206 15s. 4d.; Toll Traffic Receipts, £7,406 15s. 6d.; Freight Traffic Receipts, £14,517 11s. 8d.; Traffic Expenses, £11,986 14s. 4d.; Depreciation of Boats, Horses, and Carrying Plant, £862 9s. 10d.; Rents Receivable, £3,914 16s. 7d.; Miscellaneous Receipts, £85 9s. 8d.

11. From the following particulars extracted from the books of the "Wide Seas" Navigation Co., Ltd., prepare Working Account for the year ended 31st Dec.:—

Navigation Expenses:—Coal, Water, and Oil, £609,126 10s. 9d.; Dues Towage, Pilotage, etc., £148,705 15s. 6d.; Pay of Officers and Crew, £282,856 11s. 5d.; Provisioning of Passengers, Officers, and Crew, £257,493 18s. 4d.; Suez Canal Dues, £289,586 16s. 8d.; Damages, Claims, and Law Charges, £12,000 10s. 6d.; Expenses of Steamers laid up, £9,857 4s. 11d.; Quarantine Charges, £1,625 17s. 5d.; Ships' Repairs, Stores, and General Maintenance Charges, £165,714 6s. 7d.; Insurance Charges and General Average Claims, £18,409 13s. 4d.; Depreciation of Fleet, etc., £327,916 15s. 6d.; Passage Money, £1,025,716 15s. 8d.; Freight Charters and Miscellaneous Services, £1,306,578 10s. 6d.; Government Contract Services, £250,000; Compensation from Brazilian Government for seizure of s.s. *Early Bird*, £10,000.

12. The following Balances are extracted from the books of the "Sunbeam" Hotel, Ltd. You are required to prepare therefrom the Working Account for the year ended 31st Dec.:—

Amounts Consumed:—Grocery and Provisions, £4,520 14s. 2d.; Wines Spirits, and Liqueurs, £4,206 10s. 8d.; Ale, Beer, and Minerals, £1,986 13s. 5d.; Tobacco, Cigars, Cigarettes, £1,023 17s. 6d.; Sundry Stores, £240 16s. 7d.; Wages and Salaries, £5,017 11s. 4d.; Licences and Insurances, £957 13s. 10d.; Newspapers, Magazines, Printing and Stationery, £305 4s. 9d.; Coals, Gas and Lighting, £627 19s. 1d.; Repairs and Renewals of Buildings, £214 10s. 6d.; Laundry, £334 18s. 5d.; Stable and Garage Expenses, £235 6s. 8d.; Rates, Taxes, and Insurance, £1,075 10s. 6d.; Repairs, Renewals, and Depreciation—Furniture and Fittings, £306 4s. 6d.; Cutlery and Plate, £162 8s. 5d.; House, Bed, and Table Linen, £105 11s. 3d.; China and Glass, £114 17s. 9d.; Amounts charged to Customers—Grocery and Provisions, £6,517 11s. 4d.; Wines, Spirits, and Liqueurs, £6,702 10s. 8d.; Ale, Beer, and Minerals, £3,098 12s. 6d.; Tobacco, Cigars, Cigarettes, £1,587 8s. 9d.; Apartments, Attendance and Baths, £11,516 14s. 3d.; Bar Receipts, £1,025 11s. 5d.; Billiard Room Receipts, £472 9s. 7d.; Stable and Garage Receipts, £276 15s. 4d.

13. There are various errors in the following Trial Balance:—

(*a*) Make out a correct Trial Balance.
(*b*) Prepare Manufacturing Account showing Gross Profit.

(*c*) Prepare Profit and Loss Account showing Net Profit.
(*d*) Prepare Balance Sheet.

	Dr.	*Cr.*
H. Bushell, Capital Account	——	£10,000
Drawings	£500	——
M. Martinez, Capital Account	——	5,000
Drawings	——	200
Buildings and Land	9,000	——
Machinery and Plant	6,600	——
Advance to H. Jones	——	1,800
Mortgage on our Buildings and Land	3,000	——
Bank Balance, overdraft	——	2,000
Cash on hand	780	——
Bills Receivable	——	960
Stock on hand, 1st January	6,000	
Materials purchased	7,200	
Bills Payable	810	
Reserve for Bad Debts	600	——
Sales	——	17,000
Works Salaries and Wages	1,100	——
Head Office Salaries and Wages	700	
Fuel and Power at Works	210	
Insurance Premiums, Works	40	
Rates and Taxes (works portion, £60)	160	
Discounts allowed	——	410
Repairs, etc. (works portion, £50)	210	
Interest and Discount received	270	——
Sundry Trade Debtors	6,200	——
Sundry Trade Creditors	——	4,100
Bad Debts	——	210
General Trade and Travelling Expenses	——	500
	£43,380	£42,180

Stocks on hand, 31st Dec., were:—
Manufactured Articles, £2,500;
Materials and Incomplete Work, £3,100.
Write off 5 % from Machinery and Plant. Write off Bad Debts.
Credit Partners with 5 % Interest on Capital.
Divide Profit or Loss as the case may be equally between the Partners.
—(*Civil Service: 2nd Division Clerks.*)

14. An Engineer's books give the following figures—for the first year: Materials purchased, £17,500; Sales, £30,000; Wages, £7,500; and Expenses, £2,000. The Stocks at the beginning of the year were: Materials, £6,000; Finished Work, £4,000; and at the end of the year they were: Materials, £5,000; and Finished work, £3,000. For the second year, the materials purchased were £14,000; Wages, £4,800; Expenses, £1,200; and Sales, £17,000. The Stock at the end of the second year is Materials, £7,000, and Finished work, £6,000. Prepare a statement showing each year (and also the average of the two years) what are the percentages of Cost of Materials, Wages, Expenses, and Profit on the output.—(*West Riding of Yorkshire.*)

15. The undermentioned figures have been extracted from the Trial Balance of the Blankshire Iron Co., Ltd., whose financial year closes on 30th June.
Prepare a Furnaces Account showing the cost per ton of the Pig Iron produced, a Trading Account and a Profit and Loss Account.

BALANCES EXTRACTED FROM TRIAL BALANCE.
June 30th.

	£
Coal purchased	7,320
Coke and Limestone purchased	19,550
Ironstone purchased	7,461
Wages (Furnace)	6,842
Sales of Pig Iron	62,446
Stock of Pig Iron (June 30th)	9,402
Trade charges	5,424
Sales of Waste Materials and By-products	5,862
Office Salaries	3,401
Directors' Fees	1,500
Transfer Fees	52
Depreciation	3,890
Interest received	321
Bad Debts	1,680

The stock of Pig Iron in hand as on June 30th was valued at £9,221.

The Pig Iron produced during the year amounted to 18,600 tons.—(*London Chamber of Commerce.*)

16. A Manufacturer's books show the following figures for each item for two years :—Materials used, £22,389 and £21,427 ; Wages, £7,495 and £7,577 ; Rent and Power, £1,659 and £1,655 ; Carriage, £513 and £494 ; Trade Expenses, £303 and £309 ; Gas and Water, £213 and £240 ; Travellers, £719 and £763 ; Repairs, £426 and £563 ; Insurance, £78 and £78; Depreciation, £600 and £580.

Goods produced (Net) £36,468 and £36,261.

Prepare a Statement showing for each year the various costs per cent. on production.—(*West Riding of Yorkshire.*)

17. From the particulars given in Exercise XIII–26, page 468, draw up a Mine Working Account.

18. From the particulars given in Exercise II–24, page 72, prepare a Mine Working Account.

19. Messrs. John Berry and L. Flower were equal partners in the firm of Berry & Flower, Iron Smelters. The following balances of accounts appeared in their books as on 31st December :—General Wages, £8,037 ; Coal used (including Carriage), £6,047 ; Coke used (including Carriage), £17,546 ; Wagon Hire (credit balance), £278 ; Pig Iron Sales, £54,056 ; Foundry consumption of Pig Iron, £103 ; Branch Railway Income (leased to adjoining company), £705 ; Materials and Stores (including Foundry Charges and Repairs to locomotives, etc.), £1,198 ; Ironstone used (including Royalties, etc.), £5,707 ; Limestone used (including Royalties, etc.), £1,513 ; Salaries of Furnace Experts, £559 ; Travelling Expenses, £40 ; Rates and Taxes, £657 ; Land Damages and Compensation to neighbours, £60 ; General Charges, £92 ; Manager's Salary, £500 ; Pig Iron Stock (31st December), £12,268 ; Interest (credit balance), £199 ; J. Berry (Drawings Account), £4,000 ; L. Flower (Drawings Account), £5,000 ; Works Plant, Rolling Stock, etc., £33,080 ; Coal and Coke Wagons, £3,150 ; Coal Stock (31st December), £240 ; Coke Stock (31st December,) £688 ; Ironstone Stock (31st December), £600 ; Limestone Stock (31st December), £35 ; J. Berry (Capital), £25,531 ; L. Flower (Capital), £26,613 ; Sundry Creditors (including all necessary adjustments), £18,732 ; Sundry Debtors, £15,329 ; Loans to Workmen, £213 ; Reserve for

Bad Debts, £909; Cash at Bank (Deposit), £9,000; Cash at Bank (Current), £1,523; Cash in hand, £44.

Write £2,500 off Works Plant, Rolling Stock, etc., as depreciation.

Write £150 off Coal and Coke Wagons as depreciation.

Make the reserve for Bad Debts up to £1,500.

No interest upon Capital or Drawings is to be charged.

The stock of Pig Iron on 31st December was valued at £10,550.

Prepare a Pig Iron Production Account (showing the cost of Pig Iron produced); a Pig Iron Trading Account (showing the gross profit realised by Pig Iron Sales); and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.—(*Chartered Accountants.*)

20. Rumett & Co., Ltd., is a Company having a Nominal Capital of £25,000, divided into 15,000 Ordinary Shares of £1 each, and 10,000 6% Cumulative Preference Shares of £1 each. Six thousand five hundred Cumulative Preference Shares and 13,000 Ordinary Shares have been issued and are fully paid, with the exception of £50 calls unpaid on the Ordinary Shares. The Ordinary Shares were issued at a premium of 2s. 6d. per share. There are £8,000 of 5% Debentures outstanding, the interest on which is due 1st January and 1st July.

The following are the Ledger Balances on 30th June:—

Stock	£8,968	–	–	Rents of Property Sublet	£84	–	–
Manufacturing Wages	7,459	–	–	Calls in arrear	50	–	–
Office Salaries and Wages	795	–	–	Debentures	8,000	–	–
Directors' Fees	400	–	–	Carriage Outwards	262	–	–
Raw Material purchased	20,200	–	–	Freehold Land and Buildings, 1st July	6,000	–	–
Factory Coal and Gas	656	–	–	Machinery and Plant, 1st July	12,700	–	–
Carriage Inwards	166	–	–	Machinery and Plant, additions during year	500	–	–
Purchases of Partly Manufactured Goods	3,681	–	–	Investments forming Reserve Fund	2,000	–	–
Cost of Finishing Goods away from Factory	285	–	–	Motor Lorries, Horses, Carts, etc., 1st July	1,850	–	–
Ordinary Share Capital	13,000	–	–	Discount and Allowances	819	–	–
6% Cumulative Preference Share Capital	6,500	–	–	Commission and Agency Expenses	366	–	–
Sales	42,042	–	–	Legal and Audit Charges	76	–	–
Sales Returns	416	–	–	Repairs and Maintenance of Machinery and Plant	218	–	–
Discount earned	226	3	4	Repairs and Maintenance of Premises	52	–	–
Rates, Taxes, and Insurance	397	–	–	Debenture Interest	200	–	–
Advertising	121	–	–	Balance of Profit and Loss Account	168	–	–
Reserve Fund	2,000	–	–	Book Debts	10,438	–	–
Premium on Shares Account	1,625	–	–	Bills Receivable	1,681	–	–
Bills Payable	960	–	–	Unexpired Values, Insurance, etc.	74	–	–
Sundry Creditors	10,332	–	–	Cash at Bank	3,531	10	–
Bad Debts written off	46	–	–	Cash in hand	75	–	–
Printing, Stationery, and Postage	98	–	–				
Travelling and Miscellaneous Expenses	432	–	–				
Interest on Reserve Fund Investments	75	6	8				

Prepare :—

(*a*) Trial Balance.
(*b*) Manufacturing and Profit and Loss Accounts.
(*c*) Balance Sheet.

Provide in the accounts for :—

(*a*) Depreciation of Land and Buildings, 1%.
(*b*) Ditto Machinery and Plant, 7½%.
(*c*) Ditto Motors, etc., 15%.
(*d*) Discount to be allowed to Customers £260
(*e*) Bad and Doubtful Debts 450
(*f*) Discounts to be earned on payment of Creditors' Accounts 92
(*g*) Half-year's Debenture Interest 1st July 200
(*h*) Rent due to 30th June of Property sub-let . . . 28
(*i*) Preference Dividend, 30th June. (Last year 5% dividend only was paid on the Preference Shares.)
Stock at 30th June was 7,652

—(*Civil Service : Second Division Clerks.*)

21. For the current year a Trading Account stands thus :—

	£		£
Cost of Materials .	5,000	Sales	10,000
Wages . . .	3,000		
Discount . . .	500		
Expenses . . .	1,500		
	£10,000		£10,000

State the above costs as percentages on Turnover.

As this leaves no profit, the Trader considers how he can improve matters, and finding that he cannot advance his selling prices he will aim at increasing the Turnover by £2,000, and reducing the percentage costs on Turnover by Materials 2, Wages 1, Discount 2 ; the Expenses remain at the same amount. Show his Trading Account for the next year on the basis of these alterations.

—(*West Riding of Yorkshire.*)

22. State in what manner you consider the percentages of cost should be shown in a manufacturing business of which the following are the Profit and Loss figures for the year. Calculate such percentages.

Purchases	£4,500	
Wages	2,000	
Rent	200	
Stock, 1st January	1,000	
Rates, Taxes, and Insurance	100	
Salaries	750	
Depreciation of Plant	250	
Stock, 31st December		£1,000
Sales		10,000
Net Profit	2,200	
	£11,000	£11,000

—(*Chartered Accountants.*)

23. The London and Madras Trading Co., Ltd., opened a Branch in Madras

on 1st July. The following are balances extracted from the Madras Branch Books on June 30th (1st year) and June 30th (2nd year) :—

	1st Year.	2nd Year.
Stock at the beginning of the year	Nil	£5,400
Purchases during the year	£10,000	11,000
Freight and Duty (Inward)	850	1,200
Packing Charges (Inward)	200	350
Wages	200	250
Salaries—Manager	600	1,000
Do. General	400	500
Commission—Manager	300	Nil
Do. General	50	40
Travelling	400	360
Advertising	150	300
Postages and Telegrams	100	200
General Expenses	120	180
Sales	6,000	11,300

The Stock on hand at June 30th (2nd year) was £7,700.

Make out comparative Trading Accounts for the two years, showing gross and net trading profit and percentages. Draw attention to any points which, in your opinion, call for further investigation, and criticise the results shown. You are informed that in the first year the shipments consisted wholly of valuable goods of comparatively small bulk ; but in the second year one-third of the shipments consisted of bulky goods of comparatively small value.—(*Chartered Accountants.*)

24. The manager of a Manufacturing Concern, of which you are auditor, is paid partly by salary and partly by commission. Under the agreement for service, in case of dispute as to the commission payable, the auditor's decision is to be final. Such a dispute has arisen, and in order that your decision may be wholly unbiased, the Profit and Loss figures are given to you, without any indication as to which are the items in dispute. The following are the figures supplied, and you are asked to prepare and certify statements showing :—

(*a*) The manufacturing profit ;
(*b*) The percentage of net profit to the manufacturing cost.

	Dr.	*Cr.*
Stock, 1st Jan.	£1,500	
Purchases	2,000	
Manufacturing Wages and Salaries	2,000	
Office Salaries	410	
Discount on Sales	150	
Carriage Inwards	100	
Carriage Outwards	120	
Printing and Stationery	70	
Rent and Rates	390	
Travelling Expenses	130	
General Expenses	290	
Discount on Purchases		£100
Sales		6,000
Stock, 31st Dec.		1,800
	£7,160	£7,900

In answering this question, the detail must be shown.—(*Chartered Accountants.*)

REVISION EXERCISE XV

1. On the 1st March, A and B enter into partnership, and the following is a record of various transactions of the firm. You are required to record the same in the Cash Book, or journalise for entry in the Ledger as the case may be.

Mar.	1.	Cash paid to Bank, A's Capital		£1,500	– –
	,,	Do. do. B's ,, ...		1,000	– –
	,,	£20 drawn from Bank to make cash payments.			
	2.	Bought from C 12 doz. Champagne at 80s. a doz.			
	,,	Bought from D 20 doz. Sherry at 35s. a doz.			
	5.	Sold to E 1 doz. Champagne at 96s. a doz.			
	,,	Sold to F 4 doz. Sherry at 48s. a doz.			
	16.	Paid C by cheque for Champagne, less 2½% discount.			
	,,	A drew from Bank £25 for private expenses.			
		Paid Jones & Co. for Office Furniture and Fixtures .		37 10	–
	,,	Paid H & Co. for purchase of their business of Wine and Spirit Merchants, £2,246 4s. 5d., made up as follows :—			
		Stock of Wines, Spirits, etc. . .	£2,025 – –		
		Horses, Carts, etc.	150 – –		
		Book Debts taken over by the firm of A and B	340 – –		
			2,515 – –		
		Less :—Sundry Trade Creditors to be paid by the firm of A and B .	268 15 7		
				2,246 4	5
	20.	Accepted D's Bill at 3 months for the Sherry purchased.			
	,,	Received from F cheque for Sherry, less 5%.			
	25.	Bought of E 10 Boxes of Cigars at 19s. 6d.			
	31.	Paid Office Salaries in cash, £13.			
	,,	Bought of K & Co. Bottling Plant, invoiced at £90, less trade discount of 10%.			
	,,	Received Consignment of Wines from E. Escarno, Oporto		325 –	–
	,,	Paid duty and charges thereon by cheque . .		71 3	6
	,,	E. Escarno agrees to leave permanently £250 on loan to the firm, part value of the consignment.			
Apr.	25.	Oporto consignment sold to L & Co. for £415.			
	,,	Charged E. Escarno 5% commission on sale of consignment.			
	,,	Rendered account sales to E. Escarno and sent him balance by cheque.			

—(*Civil Service : Second Division Clerks.*)

2. A business has ten Sales Ledgers marked respectively A, B, C, etc. The Sales Day Book has analysis columns corresponding to the Ledgers. Each Ledger is balanced separately each month. On January 20th a sale of £10 posted to F Ledger is placed in Day Book in G column by mistake. Say how the January monthly summaries of F and G Ledgers are affected, and how the balances shown by the summaries will compare with the balances as extracted from the Ledgers.—(*West Riding of Yorkshire.*)

3. Explain what is meant by "Capital Expenditure," and state the considerations which would guide you in deciding whether a particular item of expenditure properly comes within this category or not.—(*West Riding of Yorkshire.*)

4. The X Company, Ltd., purchased a business as a going concern, as from the 1st April, for £33,000, payable as to £25,000 in fully-paid shares of £1 each, and the balance in cash, all outstandings to be adjusted up to that date, and the company to pay interest at the rate of 5 per cent. per annum, on the net purchase money from 1st April up to the date of completion, namely, the 1st July. As on the 1st April the following payments had been made in advance :—

Telephone Rent	£10 12 11
Fire Insurance	6 6 6
Plate Glass Insurance	2 7 –

On the other hand, there were outstanding liabilities as follows :—

Rent	£15 7 8
Gas and Electric Light	86 17 –
Water Rate	2 10 –

Between the 1st April and the 1st July, the vendors received on account of the purchasers £10,942 13s. 5d., and paid on their account £2,485 12s. 6d. A deposit of £3,000 had been paid by the purchasers on the 1st April.

Prepare an account showing the amount due on completion of the purchase. —(*Chartered Institute of Secretaries.*)

5. A. Andrews & Co., of London, consigned goods to the value of £2,000 to their agent, B. Bengalee of Bombay, and drew on him for £1,500 at 3 months, discounting the bill at the National Provincial Bank for £1,485. The charges for Insurance, Freight, etc., paid by A. Andrews & Co. amounted to £70. In due course B. Bengalee rendered an Account Sales to A. Andrews & Co. for £2,500 *less* Commission, etc., £85, enclosing a Sight Draft for the balance. Record these transactions in A. Andrews & Co.'s books.—(*Chartered Accountants.*)

6.—Smith & Jones united in a venture to purchase at par and issue to the public £200,000 Debentures of a Company, and agreed to share profits and losses equally. They issued the Debentures, which were fully subscribed, at 5% premium. Smith, on his own account, subscribed for and was allotted £20,000, which he subsequently sold at 10% premium ; while Jones subscribed for and was allotted £3,000, which he sold at 9% premium. The cost of the issue was £6,000. Create an Account showing how much each gained by the transaction, disregarding interest and tax.—(*Chartered Accountants.*)

7. A bill at 6 months for £500, accepted by A on 1st January for goods purchased from B, is discounted with C on 31st March at 5 per cent. per annum. The bill is dishonoured by A's bankers on presentation, the charges for noting and expenses being 5s. A then agrees to pay B £100 Cash on account, and to be charged interest at 6% p.a., giving two bills—one for £200 at 3 months and one for the balance at 6 months. Show all these transactions in B's Ledger.—(*Chartered Accountants.*)

8. D, E, and F entered into partnership on the 1st January, their Capitals being :—

D	£3,000
E	2,000
F	1,000

and the profits were to be divided—

D $\frac{7}{16}$ E $\frac{5}{16}$ F $\frac{4}{16}$

Each partner was to be credited, before the final division of profits, with interest on his Capital at the rate of 5% p.a., and F was, in addition, to be credited with £200 a year for management. The Drawings were to be charged

with interest, monthly, at the same rate as on the Capital. The several partners' Drawings were as follows :—

D.		E.		F.	
1st March	£100	1st January	£50	1st March	£75
1st May	75	1st February	50	1st June	75
1st July	125	1st April	50	1st August	100
1st September	50	1st August	100	1st October	50
1st November	50	1st October	70	1st December	50
		1st December	30		

On the 31st December, the books were closed and after ample provision had been made for bad and doubtful debts, depreciation of Stock, Plant, etc., but before interest upon Capital and Drawings had been adjusted, or F's Salary had been charged, here was a balance of profit on the Trading Account of £2,500. Make the necessary calculations of interest, give effect to the arrangement for F's Salary, divide the net profits as arranged, and make a final statement showing the position of each partner.—(*Chartered Accountants.*)

9. Prepare an Income and Expenditure Account from the following Trial Balance of a club, taken out on the 31st December :—

Rent for the year	£500	
Rates, Taxes, Lighting, and Insurance for the year	436	
Sundry Creditors		£1,322
Entrance Fees		36
Cash at Bankers'	30	
,, in hand	2	
Secretary's Remuneration	150	
Sundry Debtors	37	
Subscriptions paid in advance		160
Furniture, Fittings, and Fixtures	1,281	
Stewards' and Servants' Wages	600	
Structural and other Improvements to Club House	1,684	
Printing, Stationery, Newspapers, etc.	145	
Law Charges	18	
Annual Subscriptions		2,173
Card and Billiard Room Receipts		123
Washing, Liveries, and Sundries	107	
Wines, Spirits, Cards, and Cigars sold		433
Repairs to House and Furniture	409	
Conversazione Expenses	95	
Wines, Spirits, and Cigars purchased	341	
Stock of Cigars (1st Jan.)	15	
Interest on Loan	6	
Special Call made on Members		314
Excess of Income over Expenditure brought forward from last account		1,295
	£5,856	£5,856

£123 has to be written off the furniture, fixtures, and fittings, and £100 off the structural and other improvements. There is no stock at the end of the year.—(*Chartered Accountants.*)

10. You are appointed book-keeper to an old-established business which has recently been converted into a public Limited Company. Give rulings

of any books which it would be necessary for the new Company to keep, other than the ordinary books of Account which are already in existence, and need no amendment.—(*National Union of Teachers.*)

11. Enter into Journal and Cash Book the following transactions of a Limited Company :—

The Company was registered on the 1st January with a Nominal Capital of £120,000, divided into 120,000 shares of £1 each, of which 40,000 were issued as fully paid to the Vendor as part purchase consideration, 40,000 offered for subscription to provide Working Capital, payable as to 5s. per share on application, 5s. per share on allotment, and the remainder in two calls of 5s. each ; 40,000 shares to be held in reserve for future issue. The Vendor also received £10,000 in 5 per cent. Debentures, being the balance of the purchase consideration.

Jan. 5. Applications were received for 35,000 shares.
6. Allotment made of 35,000 shares.
10.—Amount due on allotment of 35,000 shares was received.
Feb. 10.—First Call of 5s. per share was made, payable on the 24th February.
10.—40,000 fully-paid Shares allotted to the Vendor.
10. 5 per cent. Debentures issued to Vendor for £10,000, balance of purchase-money.

—(*Chartered Accountants.*)

12. Jones, Brown & Robinson were partners in a business, profits and losses being divided—Jones $\frac{3}{8}$ths, Brown $\frac{3}{8}$ths, and Robinson $\frac{1}{4}$th. The partnership was dissolved as on 31st December, on which date the position of the firm was as follows :—

BALANCE SHEET

Capital—			Sundry Assets		£10,620
Jones	£3,000		Debtors—		
Brown	2,100		Robinson	£500	
		£5,100	Sundry	2,000	
Loans—					2,500
Jones	£500		Cash in hand		120
Smith	800				
		1,300			
Sundry Creditors		5,840			
Bank Overdraft		1,000			
		£13,240			£13,240

The expenses of dissolution were £120. Jones took over the business, paying £7,850 for the " Sundry Assets," and £2,500 for the Goodwill. Prepare an account, as between the partners, showing the result of the dissolution.—(*Chartered Accountants.*)

13. Prepare Journal entries to record the following transactions in the books of a Limited Company :—200 shares of £1 each, 15s. called up, and on which 5s. per share had been paid, were forfeited and subsequently sold to X for £130, credited with 15s. per share paid up.—(*Chartered Accountants.*)

14. The following is stated in a Brewery Company's report to have been the result of the year's working :—

Profit for the year	£120,000
of which there has been paid or charged :—	
Interest on Debenture Stock	40,000
Interest on Mortgages and Deposits	10,000

Directors' and Trustees' Fees, Income Tax, and Management Expenses £16,000
Loss on houses taken under the Licensing Act, 1904 . 5,000
Compensation Levy under the same Act . . . 5,500
Dividend on Preference Shares 15,000

and it is recommended that the balance be carried to Reserve Account. Make the Journal entries to record the above appropriations, and post to their respective Ledger Accounts.—(*Chartered Accountants.*)

15. The General Trading Company, Ltd., carry on business as Merchants. The Capital of the Company is £40,000, divided into 20,000 Ordinary shares of £1 each, all of which have been issued and are paid up to the extent of 15s. per share, and 20,000 6 per cent. Preference shares of £1 each, of which 15,000 have been issued, and are fully paid up.

TRIAL BALANCE.—30TH JUNE

Ordinary Share Capital		£15,000
Preference		15,000
Stocks, 1st July, Department A	£2,300	
" " " B	1,100	
" " " C	400	
" " " D	700	
Purchases, Freight Duty, etc. Depart. A	16,000	
" " " " B	27,000	
" " " " C	12,000	
" " " " D	13,000	
Sales, Department A		30,000
" " B		37,000
" " C		15,000
" " D		18,000
Sundry Debtors	23,000	
Bills Receivable	5,000	
Sundry Creditors		12,000
Bills Payable		1,500
Office Furniture and Fixtures	1,080	
Rent, Rates, and Insurance	1,800	
Marine Insurance	2,400	
Travellers' Salaries and Expenses	5,400	
Office Salaries	1,800	
Commission	1,200	
Advertising	4,800	
Stationery and Printing	2,700	
Telegrams and Stamps	600	
Bank Charges	120	
Discounts and Exchange	1,500	
Incidental Expenses	900	
Directors' Remuneration	3,000	
Coal Mining Syndicate Shares	6,000	
Germanic Bank (Limited)	3,550	
Banque de la République	2,500	
British Bank (Limited)	3,500	
Income Tax Reserve Account		300
Dividend Account—Half-year's Dividend on Pref. Shares, 31st Dec.	450	
	£143,800	£143,800

The business of the Company is divided into four Departments:—

A. Iron and Steel;
B. Coal;
C. Machinery and Tools;
D. Sundries.

From the Trial Balance on previous page for the year ending 30th June prepare Departmental Trading Accounts, showing gross profit of each department, and apportion the expenses in proportion to the turnover of each department.

Write 10 per cent. depreciation off Furniture and Fittings, provide £300 for Bad Debts, and 2% on the debtors for Discounts.

The Stocks on hand on 30th June were: A, £3,000; B, £1,000; C, £700; and D, £980.

No dividends have been received on the shares in the Coal Mining Syndicate, Ltd., and the directors have decided to place £3,000 to a Reserve Fund, to provide for the depreciation in value of these shares.

Prepare Profit and Loss Account and Balance Sheet.—(*Chartered Accountants.*)

16. The Chiddingfold Manufacturing Co., Ltd., was registered with a nominal Capital of £100,000, divided into 50,000 6% Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each.

The books of the Company were balanced as on 31st January, on which date a Trial Balance, containing the following balances, was extracted from the books:—

Carriage, Dock Dues, and Freight	£4,773
Advertising	649
Fuel, Lighting, and Water	2,163
Postage and Incidentals	590
Catalogues and Price Lists	416
Packing	542
Machinery Repairs	177
Stable Expenses	913
Office Expenses, Stationery, and Telephone	1,022
Ordinary Share Capital A/c	5,000
Six per cent. Preference Share Capital Account	20,000
Debenture Capital Account (200 Debentures of £100 each at 4½%)	20,000
Employees' Superannuation Fund	4,360
Debenture Interest	855
Directors' Salaries	1,095
Buildings Account	903
Machinery and Plant A/c	8,750
Stock on hand (Feb. 1st)	38,672
£5,000 Consols (at cost) (Investment of Employees' Superannuation Fund)	4,360
Cash in hand	£210
Horses and Carts	720
Transfer Fees	1
Purchases	102,664
Purchases Returns	3,748
Factory Wages	12,704
Salaries and Travellers' Commission	10,691
Rents, Rates, Taxes, and Insurance	3,173
Sales	174,493
Sales Returns	6,619
Discount Account (Debit Balance)	2,762
Bad Debts written off	203
Bank Charges and Interest	42
Legal Expenses and Audit Fee	418
Company's Contribution to Superannuation Fund	516
Debtors as per Sales Ledger	19,876
Creditors as per Bought Ledger	4,340
Bills Payable	320
Cash at Bank	5,784

Before closing the books the following adjustments are necessary:—

1. Telephone Rent paid in advance £25
2. Travellers' Commission owing 342

3. Rent due £379
4. Insurance unexpired 541
5. Reserve for Discounts, etc., on Sundry Debtors . 500
6. Write off the following Depreciations:—
   Machinery and Plant, 10 per cent.
   Carts and Horses, £214.

The Stock on hand as on 31st January was valued at £34,839.

The Directors decide to write off the whole of the Buildings Account and to transfer £7,000 to Reserve Account from the profits of the year.

You are required to prepare a Trading and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date.—(*London Chamber of Commerce.*)

CHAPTER XVI

DEPRECIATION, SINKING FUNDS, RESERVES, RESERVE FUNDS, SECRET RESERVES

What is Depreciation?—Depreciation is the gradual decrease in value of an asset from any cause.

Difference between Depreciation, Fluctuation, and Wear and Tear.—Depreciation denotes a *permanent* decrease in value; fluctuation indicates merely a *temporary* decrease or increase of value; wear and tear signifies shrinkage of value arising from one cause, namely, use.

Causes of Depreciation.—The causes of depreciation are:—

(1) Ordinary, inherent, or internal, such as wear and tear of wasting assets arising through use or working, *e.g.*, buildings, plant, and machinery.

(2) Extraordinary or external, such as obsolescence in the case of machinery, a fall in market price in the case of investments, expiration or effluxion of time in the case of a lease, patent, etc.

Reasons for Charging Depreciation.—Unless assets are depreciated, it is obvious that, on the Balance Sheet, their value will be overstated; and the Balance Sheet will not, therefore, be a correct representation of the state of the business. Secondly, assets such as plant and machinery are held for the purpose of earning income, and the loss arising on those assets through wear and tear is undoubtedly a loss incurred in the earning of such income, and should equitably be charged or set off against it. Thirdly, if depreciation was not provided for by charges against Revenue, additional capital would have to be raised whenever the necessity for replacing the asset arose.

Special Terms and their Meaning.—In connection with the subject of depreciation, special terms are in use, which the student must carefully note. The **life** of an asset is the number of years that it will continue to be usable or productive. At the end of their life some assets have no value at all, *e.g.*, a Lease, or Patents; other assets, such as Plant and Machinery, have a **residual** or **break-up value**, that is, the value of the material as old or scrap iron. Machinery is said to be **scrapped** or **thrown on the scrap heap** when it is broken up at the end of its period of usefulness, because it is worn out or has been superseded by newer and more efficient machinery. In certain businesses, the possibility of *obsolescence*, *i.e.*, machinery being rendered obsolete by later and better inventions, which will do the same work more quickly and more cheaply,

is a very serious consideration, and influences largely the rate of depreciation. If the loss sustained by obsolescence is unexpected and very large, it is not carried to Profit and Loss at once, but written off gradually over a series of years; but where such obsolescence can be foreseen, it should be provided for in anticipation.

Repairs, Renewals, and Replacements.—To repair means to restore again, to make efficient for all practical purposes. To renew means to discard an asset, or some part of it, and to replace with a similar or improved asset or part. It has been argued by some accountants, that if proper provision is made for repairs and renewals, the necessity for providing for depreciation is thereby obviated. But other accountants maintain that, in spite of constant repairs, there is an inevitable depreciation to be taken into consideration.

Entries for Depreciation in the Books of Account.—To depreciate in the book-keeping sense of the term, means to write down the value of assets. This is done by means of a Journal entry debiting to a Depreciation Account the amount to be written off, and crediting it to the account of the asset, thus reducing the book value of the latter. The Depreciation Account itself is closed ultimately by transfer to Profit and Loss.

Methods of Depreciation.—There are seven different methods of charging or providing for depreciation :—

(1) Fixed Instalment Method.
(2) Diminishing or Reducing Balance Method.
(3) Annuity System.
(4) Depreciation Fund Method.
(5) Insurance Policy System.
(6) Revaluation Process.
(7) To charge one sum to cover repairs, renewals, and depreciation.

(1) Fixed Instalment Method

Nature and Use.—Under this system a fixed proportion of the original capital outlay is written off annually in order to reduce the asset to zero or residual value at the end of the period, repairs and small renewals being debited to Profit and Loss. This method is suitable for Patents, and also for short Leases which involve little capital outlay, and is sometimes used for Plant and Machinery. Suppose, for instance, we have purchased Machinery at a cost of £4,000; that its life is six years; that its break-up value is £400. Then £3,600 must be written off in six years, that is, £600 each year. Or, looking at it from the percentage point of view, we have to write off $\frac{3600}{4000}$ or $\frac{9}{10}$ths of the amount, that is, 90 per cent. in six years; therefore, 15 per cent. of the original cost must be written off each

year. Again, suppose we had a Patent with fourteen years to run, we could write off $\frac{1}{14}$th of the original cost every year; and at the end of that time the balance of the Patents Account would be extinguished.

2. Disadvantages.—One disadvantage of this method, for Plant and Machinery, is that while the depreciation remains constant, there is an increasing charge to Revenue during the life of the asset; as in the first few years the repairs are light, while in the later years they may be very heavy. Another disadvantage is that any additions to the plant and machinery would throw out the original calculation, and necessitate a fresh one being made; but this can be obviated by building up a Depreciation Account separate from the Machinery Account, *e.g.*:—

MACHINERY ACCOUNT

Year.									
1	To Cash . . .	1,000	–	–					
1	„ „ (additions) .	100	–	–					
2	„ „ („) .	200	–	–					

DEPRECIATION (MACHINERY) ACCOUNT

					Year.				
					1	By P. & L. A/c—10%	100	–	–
					2	„ „ „ „	110	–	–
					3	„ „ „ „	130	–	–

Example.—A Lease is purchased for a term of four years for the sum of £320. Show how the Lease Account would appear in the Ledger during this period, depreciation being written off by equal instalments each year.

Dr. LEASE. *Cr.*

Year.					Year.				
1	To Cash . . .	320	–	–	1	By Depreciation .	80	–	–
						„ Balance c/d .	240	–	–
		320	–	–			320	–	–
2	To Balance b/d . .	240	–	–	2	By Depreciation .	80	–	–
						„ Balance c/d .	160	–	–
		240	–	–			240	–	–
3	To Balance b/d . .	160	–	–	3	By Depreciation .	80	–	–
						„ Balance c/d .	80	–	–
		160	–	–			160	–	–
4	To Balance b/d . .	80	–	–	4	By Depreciation .	80	–	–

In the above example, depreciation is $(\frac{320}{320} \times \frac{100}{1}) = 100$ per cent. in four years, or at the rate of 25 per cent. per annum of the original

outlay. Or, from another point of view, £320 has to be written off in four years, which gives us £80 each year to write off the original cost. A Journal entry would be made each year for four years, thus :—

Depreciation .	. *Dr.*	£80	
To Lease .	. *Cr.*		£80

The amount of the Lease Account not written off would appear on the assets side of the Balance Sheet.

(2) Diminishing Balance Method

Nature and Use.—By this method a fixed rate per cent. is written off the reducing annual balance of the Asset Account each year, in order to reduce it to residual value when its period of usefulness for revenue-earning purposes has expired. Repairs and small renewals are, as under the first method, charged to Profit and Loss. This system is usually adopted for Plant and Machinery, Furniture, Fixtures, Fittings, etc.

Advantages.—The advantage of this method of depreciation is that it tends to give a fairly even charge against Revenue each year. For while depreciation is heavy during the first few years, this is counterbalanced by the repairs being light ; and in the later years, when repairs are heavy, this is counterbalanced by the decreasing charge for depreciation.

Mathematical Formula.—The rate per cent. to write off the diminishing value each year is found by means of the following formula :—

$$P \times \left(\frac{100 - r}{100}\right)^n = RV$$

where P denotes the principal, r the required rate per cent., n the number of years, and RV the residual value.

Example.—Machinery is bought for £2,000. Its life is estimated to be six years, and its break-up value at the end of the period £356. Show the Machinery Account for the six years, writing off depreciation at a fixed rate per cent. on the diminishing or reducing value of the asset.

According to the formula :—

$$2000 \times \left(\frac{100 - r}{100}\right)^6 = 356$$

which, when reduced, gives us :—

$$r = 100 - 100\sqrt[6]{\cdot 178} = 100 - 100\ (\cdot 7500) \text{ approx.};$$

hence $r = 100 - 75 = 25$ per cent. approximately.

The Ledger Account of the asset will, therefore, appear as follows :—

Dr. MACHINERY. *Cr.*

Year.					Year.				
1	To Cash	2,000	–	–	1	By Depreciation	500	–	–
						„ Balance c/d	1,500	–	–
		2,000	–	–			2,000	–	–
2	To Balance b/d	1,500	–	–	2	By Depreciation	375	–	–
						„ Balance c/d	1,125	–	–
		1,500	–	–			1,500	–	–
3	To Balance b/d	1,125	–	–	3	By Depreciation	281	5	–
						„ Balance c/d	843	15	–
		1,125	–	–			1,125	–	–
4	To Balance b/d	843	15	–	4	By Depreciation	210	18	9
						„ Balance c/d	632	16	3
		843	15	–			843	15	–
5	To Balance b/d	632	16	3	5	By Depreciation	158	4	1
						„ Balance c/d	474	12	2
		632	16	3			632	16	3
6	To Balance b/d	474	12	2	6	By Depreciation	118	12	2
						(Adjustment of rod.)			
						„ Balance c/d	356	–	–
		474	12	2			474	12	2
7	To Balance b/d	356	–	–					

Reduction of Formula.—The reduction of the formula seems to give students a great deal of trouble. A simple method of reducing it is as follows :—

Formula— $$2000 \times \left(\frac{100 - r}{100}\right)^6 = 356$$

Dividing both sides by 2000, we get

$$\left(\frac{100 - r}{100}\right)^6 = \frac{356}{2000} = \frac{178}{1000} = \cdot 178$$

Taking the sixth root of both sides, we have

$$\frac{100 - r}{100} = \sqrt[6]{\cdot 178}$$

Multiplying both sides by 100, we get the following :—

$$100 - r = 100\sqrt[6]{\cdot 178}$$

Transposing the 100, and changing signs, we have

$$r = 100 - 100\sqrt[6]{178} = 100 - 100\ (\cdot 7500) \text{ approx.}$$

Hence, $r = 100 - 75 = 25$ per cent. approximately.

In this case we can find the cube root of ·178, which is ·5625 (approx.); and then the square root of ·5625, which is ·75. In cases, however, where the root cannot be extracted arithmetically, *e.g.*, the fifth root or the seventh root, recourse must be had to logarithms to obtain the required root. For instance, in the above example, we should have :—

log. ·178 = $\bar{1}$·2504200

÷ by 6 = $\bar{1}$·8750700 = log. of ·7500 (approx.)

Depreciation of Additions to an Asset.—The question of how to treat additions to an asset when writing off depreciation on the first occasion after such addition, is rather a complex one. Owing to conflicting views, no less than three different methods obtain. The additions are:—

(1) ignored, by writing depreciation off the balance of the Asset Account as at the *beginning* of the year;

(2) included, by writing depreciation off the balance of the Asset Account as at the *end* of the year;

(3) depreciated *proportionately*, a machine purchased about the middle of the year being written down at *half* the annual rate, and so on.

Example.—Machinery is bought for a sum of £2,500. Additions are made in June in the second year to the extent of £200, and in March of the third year to the amount of £150. Show, by means of Ledger Accounts, the various methods of dealing with the additions when writing off annual depreciation at the rate of 10 per cent. on the diminishing balance.

First Method :—

Dr. PLANT AND MACHINERY. *Cr.*

Year.					Year.				
1	To Cash	2,500	–	–	1	By Depreciation, 10%			
						£2,500	250	–	–
						„ Balance c/d	2,250	–	–
		2,500	–	–			2,500	–	–
2	To Balance b/d	2,250	–	–	2	By Depreciation, 10%			
	„ Cash (June)	200	–	–		£2,250	225	–	–
						„ Balance c/d	2,225	–	–
		2,450	–	–			2,450	–	–
3	To Balance b/d	2,225	–	–	3	By Depreciation, 10%			
	„ Cash (March)	150	–	–		£2,225	222	10	–
						„ Balance c/d	2,152	10	–
		2,375	–	–			2,375	–	–
	To Balance b/d	2,152	10	–					

Second Method :—

Dr. PLANT AND MACHINERY. *Cr.*

Year.					Year.				
1	To Cash	2,500	–	–	1	By Depreciation, 10% £2,500	250	–	–
						„ Balance c/d	2,250	–	–
		2,500	–	–			2,500	–	–
2	To Balance b/d	2,250	–	–	2	By Depreciation, 10% £2,450	245	–	–
	„ Cash (June)	200	–	–		„ Balance c/d	2,205	–	–
		2,450	–	–			2,450	–	–
3	To Balance b/d	2,205	–	–	3	By Depreciation, 10% £2,355	235	10	–
	„ Cash (March)	150	–	–		„ Balance c/d	2,119	10	–
		2,355	–	–			2,355	–	–
	To Balance b/d	2,119	10	–					

Third Method :—

Dr. PLANT AND MACHINERY. *Cr.*

Year.					Year.				
1	To Cash	2,500	–	–	1	By Depreciation, 10% £2,500	250	–	–
						„ Balance c/d	2,250	–	–
		2,500	–	–			2,500	–	–
2	To Balance	2,250	–	–	2	By Depreciation— 10% £2,250 = £225			
	„ Cash (June)	200	–	–		5% £200 = 10			
							235	–	–
						„ Balance c/d	2,215	–	–
		2,450	–	–			2,450	–	–
3	To Balance b/d	2,215	–	–	3	By Depreciation— 10% £2,215 = £221 10			
	„ Cash (March)	150	–	–		7½% £150 = 11 5			
							232	15	–
						„ Balance c/d	2,132	5	–
		2,365	–	–			2,365	–	–
	To Balance b/d	2,132	5	–					

(3) Annuity Method

Nature and Use.—Under the Annuity Method the purchase of the asset is regarded as an investment of capital which, if employed for other purposes, would be earning a certain rate of interest. Interest at this fixed rate is, therefore, debited to the Asset Account each year, and credited to an Interest Account. The asset and

Interest are then written down by equal annual instalments until extinguished. This method is used principally for Leases involving considerable outlay spread over a number of years, when it is not desired to replace them at the end of the period. It is not so suitable for Plant and Machinery, as fresh calculations would be necessary each time additions were made. This system although very scientific, results in an increasing charge against Revenue each year; for, while the depreciation that is debited remains constant, the interest being credited will diminish each year. If at the expiration of a Lease, dilapidations have to be provided for, this can best be done by means of the Sinking Fund Method explained later on in this chapter.

Annuity Method Depreciation Tables.—The amount to be written off yearly by the Annuity Method, *i.e.*, Principal + Interest − Instalment, can be easily calculated from Tables based on the following formula for £1 :—

$$\frac{1}{\frac{(1 + \text{Interest})^n - 1}{\text{Interest}}} + \text{Interest, or } \frac{\text{Interest}}{\text{Compound Interest}^n - 1} + \text{Interest}$$

where n = number of years. This gives us for five years, at 5 per cent.,

$$\frac{\cdot 05}{\cdot 276281} + \cdot 05 \text{ or } \cdot 180975 + \cdot 05, \text{ that is } \cdot 230975;$$

and so on for other rates and years.

The following Table A is sufficient for ordinary book-keeping purposes, and for the working of the exercises at the end of this chapter :—

TABLE A

Amount required to write off £1 by the Annuity Method

Years.	3%.	3½ %.	4 %.	4½ %.	5%.
3	·353530	·356933	·360348	·363773	·367208
4	·269028	·272251	·275490	·278744	·282012
5	·218354	·221481	·224627	·227792	·230975
6	·184597	·187668	·190761	·193878	·197017
7	·160506	·163544	·166609	·169701	·172819
8	·142456	·145476	·148527	·151609	·154721
9	·128433	·131446	·134493	·137574	·140690
10	·117230	·120241	·123291	·126378	·129504

Example.—A Lease is purchased for a term of seven years by payment of £3,000. It is proposed to depreciate the Lease by the Annuity Method, charging 4 per cent. interest. Show the Ledger Account of the asset during this period.

Reference to the above Table A shows that the amount for £1 for seven years at 4 per cent. is ·166609. Multiplying this by £3,000, we get £499·827000, or £499·827, which (converting the decimal at sight, as explained in Chapter IX on page 281) gives us £499 16s. 6½d.

Dr. LEASE ACCOUNT. *Cr.*

Year.					Year.				
1	To Cash	3,000	–	–	1	By Depreciation	499	16	7
	„ Interest	120	–	–		„ Balance c/d	2,620	3	5
		3,120	–	–			3,120	–	–
2	To Balance b/d	2,620	3	5	2	By Depreciation	499	16	7
	„ Interest	104	16	2		„ Balance c/d	2,225	3	–
		2,724	19	7			2,724	19	7
3	To Balance b/d	2,225	3	–	3	By Depreciation	499	16	7
	„ Interest	89	–	1		„ Balance c/d	1,814	6	6
		2,314	3	1			2,314	3	1
4	To Balance b/d	1,814	6	6	4	By Depreciation	499	16	7
	„ Interest	72	11	6		„ Balance c/d	1,387	1	5
		1,886	18	–			1,886	18	–
5	To Balance b/d	1,387	1	5	5	By Depreciation	499	16	7
	„ Interest	55	9	8		„ Balance c/d	942	14	6
		1,442	11	1			1,442	11	1
6	To Balance b/d	942	14	6	6	By Depreciation	499	16	7
	„ Interest	37	14	2		„ Balance c/d	480	12	1
		980	8	8			980	8	8
7	To Balance b/d	480	12	1	7	By Depreciation	499	16	7
	„ Interest	19	4	6					
		499	16	7			499	16	7

Note.—Owing to fractions of a 1d. being neglected, there is often a small adjustment to make in the last year.

Calculations in Decimals.—In examination work the student is sometimes asked to leave the calculations in decimals instead of

reducing them to money. This saves time and labour. The last example, worked in this fashion, would appear thus :—

Dr. LEASE ACCOUNT. *Cr.*

Year.		£			£
1	To Cash	3,000·000	1	By Depreciation	499·827
	„ Interest	120·000		„ Balance c/d	2,620·173
		3,120·000			3,120·000
2	To Balance b/d	2620·173	2	By Depreciation	499·827
	„ Interest	104·807		„ Balance c/d	2,225·153
		2,724·980			2,724·980
3	To Balance b/d	2,225·153	3	By Depreciation	499·827
	„ Interest	89·006		„ Balance c/d	1,814·332
		2,314·159			2,314·159
4	To Balance b/d	1,814·332	4	By Depreciation	499·827
	„ Interest	72·573		„ Balance c/d	1,387·078
		1,886·905			1,886·905
5	To Balance b/d	1,387·078	5	By Depreciation	499·827
	„ Interest	55·483		„ Balance c/d	942·734
		1,442·561			1,442·561
6	To Balance b/d	942·734	6	By Depreciation	499·827
	„ Interest	37·709		„ Balance c/d	480·616
		980·443			980·443
7	To Balance b/d	480·616	7	By Depreciation	499·840
	„ Interest	19·224		(Adjustment of ·013 or 3d.)	
		499·840			499·840

(4) Depreciation Fund Principle

Nature and Use.—Under this method the asset is allowed to stand in the books at its original cost. A fixed amount, called the Sinking Fund instalment, is debited to Profit and Loss each year ; and a corresponding amount of cash is invested every year in gilt-edged securities, the amount being such as will, during the life of the asset, accumulate, at compound interest, to the sum required to replace it. This system is adopted for Plant and Machinery and wasting assets whenever it is desired not merely to write off an asset, but also to make provision for its replacement at the end of its life.

Other Terms.—The Depreciation Fund Account is also designated by other names, such as Amortisation Fund Account, Sinking Fund Account, Redemption Fund Account. The first term is more appropriate to the writing off of intangible expenditure, *i.e.*, such

as is not represented by assets, *e.g.*, Preliminary Expenses, Debenture Discount; the last two terms are more suitable for the repayment of loans or debentures. Depreciation Fund Account is the best term to use in connection with the replacement of a wasting asset.

Object of Investing Cash.—The object of investing cash each year and allowing it to accumulate is that the Fund becomes available (on realising the Investments) whenever it is required. If a separate sum of money were not thus provided, the cash required at the end of the period would have to be taken from the ordinary bank balance; this might cause serious inconvenience to the business, and if the amount were very large, might cripple it. If this could not be done, fresh capital would have to be provided. The great advantage of the Sinking Fund Investment, therefore, is that it provides the money outside the business, and thus prevents any disturbance of the financial position.

Students often experience considerable difficulty in understanding these Sinking Funds and their corresponding Investments. It is because they do not grasp the fact that profit itself is very often not a tangible item, but only a mere paper balance. If we sell for £120, goods which cost us £100, we have, it is true, made a profit of £20. Now the point is, that if we have sold these goods *for cash*, then the profit is a realised one; but if we have sold these goods *on credit*, then the profit exists only on paper, and will not be realised until the debt is paid. With reference to the Sinking Fund and its Investments, there is a two-fold action. The Sinking Fund Account is being built up either by charges against, or appropriations of, *profits*, while the Investment Account is being built up by appropriations of *cash*. We sometimes speak loosely of putting by and investing *profits*; what is really done, however, is to invest *cash* on account of profits. Again, we cannot buy an asset with profits, but only with cash or its equivalent. It does not follow that because we have a Depreciation Fund Account (or a Sinking Fund Account) amounting to £3,000, that we have also £3,000 in cash in respect of it. The bank balance at this particular time might be a very small amount. The object of the Sinking Fund Investments is to make sure that a separate sum of cash, *i.e.*, independent of the ordinary bank balance, shall be available (by selling the investments) whenever it is required.

Procedure at End of Period.—At the end of the period the Investments will be realised, the cash received being debited in the Cash Book "*To Sinking Fund Investment Account*," and posted to the credit of this said account in order to close it. The Depreciation Fund Account is transferred to the Asset Account, and thus closes the latter. This shows very clearly that a Depreciation Fund is a charge against profits and not an appropriation of profits. The

Cash is now in hand with which to purchase the new asset. Should, however, the investments realise more or less than the required sum —and this is often the case in actual practice—the difference of the Investment Account must be adjusted by a debit or credit to Profit and Loss, as the case may be.

Sinking Fund Depreciation Tables.—The Sinking Fund amount is calculated from Tables based on the following formula :—

$$\frac{1}{\frac{1 + \text{Interest}^n - 1}{\text{Interest}}} \quad \text{or} \quad \frac{\text{Interest}}{\text{Compound Interest}^n}$$

This gives us the amount to be set aside yearly, at a given rate of interest, to provide £1 at the end of n or the given number of years.

For five years at 5 per cent. we get

$$\frac{\cdot 05}{\cdot 276281} \quad \text{or} \quad \cdot 180975$$

and so on for other years at other rates.

The following Table, which is sufficient for ordinary book-keeping purposes, should prove very useful to the student :—

TABLE B

Annual Sinking Fund Instalments to provide £1

Years.	3%.	3½%.	4%.	4½%.	5%.
3	·323530	·321933	·320348	·318773	·317208
4	·239028	·237251	·235490	·233744	·232012
5	·188354	·186481	·184627	·182792	·180975
6	·154597	·152668	·150761	·148878	·147017
7	·130506	·128544	·126609	·124701	·122819
8	·112456	·110476	·108527	·106609	·104721
9	·098433	·096446	·094493	·092574	·090690
10	·087230	·085241	·083291	·081378	·079504

Example.—£3,000 is paid for a Lease for a term of seven years. It is desired to write off this amount by means of the Depreciation Fund System, it being necessary to raise a similar amount, at 4 per cent. compound interest, in order to replace the Lease at the end of the period. Show the Ledger Accounts dealing with this matter.

Referring to Table B, we find the amount required to be invested yearly at 4 per cent. in order to produce £1 at the end of seven years is ·126609. The amount required to produce £3,000 will, therefore, be £3,000 × ·126609, which gives us £379·827, or (converting the decimal at sight as previously explained), £379 16s. 7d.

The following entries will be necessary in the books :—

JOURNAL.		Dr.			Cr.		
Year. 1	Profit and Loss Account . . To Depreciation Fund A/c . Amount of annual instalment.	379	16	7	379	16	7

and so on for seven years.

CASH BOOK

	Receipts.	Bank.		
Year. 2	To Depreciation Fund Account (*interest on first year's investment*)	15	3	10

and similar entries for other years.

CASH BOOK.

	Payments.	Bank.		
Year. 1	By Depreciation Fund Investment A/c . . (*Investment of Cash equal to first year's instalment.*)	379	16	7
2	,, Depreciation Fund Investment A/c . . (*Investment of Cash equal to second year's instalment plus interest on first year's investment.*)	395	–	5

and similar entries for other years.

BALANCE SHEET

Liabilities.				*Assets.*			
(Year 1) Depreciation Fund Account . .	379	16	7	(Year 1) Depreciation Fund Investment Account	379	16	7
(Year 2) Depreciation Fund Account . . .	774	17	–	(Year 2) Depreciation Fund Investment Account	774	17	–

The reason why the Depreciation Fund Investment Account does not, on the Balance Sheet, always correspond in amount with

the Depreciation Fund Account, is that the instalment is charged against profits at the end of the year (say 31st Dec.), but the corresponding investment of cash may not take place until the first month (say January) of the succeeding year. For the sake of clearness, however, the dates in the worked example have been made to agree.

The Ledger Accounts would appear as under:—

Dr. LEASE ACCOUNT. *Cr.*

Year.					Year.				
1 Jan. 1	To Cash . . .	3,000	–	–	7 Dec. 31	By Depreciation Fund Account . .	3,000	–	–

Dr. DEPRECIATION FUND ACCOUNT. *Cr.*

Year.					Year.				
1 Dec. 31	To Balance c/d .	379	16	7	1 Dec. 31	By Profit and Loss .	379	16	7
Dec. 31	To Balance c/d .	774	17	–	2 Jan. 1	By Balance b/d .	379	16	7
					Dec. 31	„ Cash (Interest) .	15	3	10
					„	„ Profit and Loss .	379	16	7
		774	17	–			774	17	–
3 Dec. 31	To Balance c/d .	1,185	13	5	3 Jan. 1	By Balance b/d .	774	17	–
					Dec. 31	„ Cash (Interest) .	30	19	10
					„	„ Profit and Loss .	379	16	7
		1,185	13	5			1,185	13	5
4 Dec. 31	To Balance c/d .	1,612	18	6	4 Jan. 1	By Balance b/d .	1,185	13	5
					Dec. 31	„ Cash (Interest) .	47	8	6
					„	„ Profit and Loss .	379	16	7
		1,612	18	6			1,612	18	6
5 Dec. 31	To Balance c/d .	2,057	5	5	5 Jan. 1	By Balance b/d .	1,612	18	6
					Dec. 31	„ Cash (Interest) .	64	10	4
					„	„ Profit and Loss .	379	16	7
		2,057	5	5			2,057	5	5
6 Dec. 31	To Balance c/d .	2,519	7	10	6 Jan. 1	By Balance b/d .	2,057	5	5
					Dec. 31	„ Cash (Interest) .	82	5	10
					„	„ Profit and Loss .	379	16	7
		2,519	7	10			2,519	7	10
7 Dec. 31	To Amount transferred to Lease A/c	3,000	–	–	7 Jan. 1	By Balance b/d .	2,519	7	10
					Dec. 31	„ Cash (Interest) .	100	15	5
					„	„ Profit and Loss (Adjustment of 1d.)	379	16	8
		3,000	–	–			3,000	–	–

Dr. DEPRECIATION FUND INVESTMENT ACCOUNT.[1] *Cr.*

Year.						Year.				
1 Dec. 31	To Cash	379	16	7	1 Dec. 31	By Balance c/d	379	16	7
2 Jan. 1	To Balance b/d	379	16	7	2 Dec. 31	By Balance c/d	774	17	–
	„ Cash (Instalment and Interest)	395	–	5					
		774	17	–			774	17	–
3 Jan. 1	To Balance b/d	774	17	–	3 Dec. 31	By Balance c/d	1,185	13	5
	„ Cash	410	16	5					
		1,185	13	5			1,185	13	5
4 Jan. 1	To Balance b/d	1,185	13	5	4 Dec. 31	By Balance c/d	1,612	18	6
	„ Cash	427	5	1					
		1,612	18	6			1,612	18	6
5 Jan. 1	To Balance b/d	1,612	18	6	5 Dec. 31	By Balance c/d	2,057	5	5
	„ Cash	444	6	11					
		2,057	5	5			2,057	5	5
6 Jan. 1	To Balance b/d	2,057	5	5	6 Dec. 31	By Balance c/d	2,519	7	10
	„ Cash	462	2	5					
		2,519	7	10			2,519	7	10
7 Jan. 1	To Balance b/d	2,519	7	10	7 Dec. 31	By Cash (*proceeds of realisation of investments*)	3,000	–	–
	„ Cash	480	12	2					
		3,000	–	–			3,000	–	–

Note 1.—The cash instalment at the end of the last year will not be invested, but will be transferred to the Investment Account money, so that the full amount will be in hand with which to purchase the new Lease.

Note 2.—The Lease Account and the Depreciation Fund Investment Account will appear on the assets side of the Balance Sheet until the end of the period. The Depreciation Fund Account will show on the liabilities side of the Balance Sheet until the end of the period; or, better still, on the assets side as a deduction from the Lease.

Income Tax on Interest from Investments.—In the worked example the Investments have been taken at par, and income tax has been ignored for the sake of simplicity, but, in practice, interest on investments would be received *less tax*. Sometimes instructions are given to invest the interest instead of remitting it; and in such cases a Cash Book entry as previously shown would not be required, but a Journal entry would be necessary to debit the Investment Account and credit the Depreciation Fund Account with the amount of such interest. In any case, however, the interest is always invested. To provide for the amount lost by reason of

[1] As the Funds would probably be invested in *various* securities, there would be several accounts amounting to this in the aggregate.

the tax, a similar sum is debited each year to Profit and Loss Account, and credited to the Depreciation Fund Account.

(5) Insurance Policy System

Nature and Use.—Under this method an insurance policy is taken out for the amount required to replace the asset at the end of the period of its life. The procedure is not unlike that under the Depreciation Fund System, except that the cash, instead of being invested in gilt-edged securities, is paid away in premiums to the Insurance Company. Although the interest thus obtained is lower, yet there is not the risk of loss on realisation, as in the case of outside investments subject to market fluctuations.

Entries in the Books.—The entries in the financial books will vary according as a Policy Account is opened or not.

(a) When a Policy Account is Opened

In some cases the amount paid as yearly premium is debited to Lease Policy Account, and is regarded as an investment which increases by the addition of interest each year. At the date of the maturity of the policy the amount standing to the debit of the Lease Policy Account would agree (approximately) with the amount received from the insurance company. If, however, a balance were shown, this could readily be adjusted. In the event of the policy being surrendered before maturity, the amount actually received would be credited to the Lease Policy Account, and any loss shown on this account would be written off.

The entries in the books will be as under:—

(*a*) For the purchase of the Lease:—
By Lease on the *Cr.* side of Cash Book.

(*b*) For the annual premiums paid to Insurance Company:—
By Lease Policy Account on *Cr.* side of Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, against Revenue:—

(JOURNAL.)

Profit and Loss A/c . . .	*Dr.*	
To Lease Redemption Fund A/c .		*Cr.*

(*d*) For debiting the Interest on balance of Lease Policy Account:—

(JOURNAL.)

Lease Policy A/c	*Dr.*	
To Lease Redemption Fund A/c. .		*Cr.*

When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Policy Account any balance being written off. The cash remains in hand ready to purchase the new lease. The Lease Redemption Fund Account will be closed by transfer to the (old) Lease Account. Until the end of the period, the Lease Account and the Lease Policy Account

will figure on the assets side of the Balance Sheet, while the Lease Redemption (or Depreciation) Fund Account will be shown on the liabilities side of the Balance Sheet.

Some accountants hold the view that the Policy Account should be maintained at surrender value.

Where such a system is in use, the entries are as above, except that no interest is charged, and in order to keep the Policy Account at its surrender value, an adjustment is necessary each year.

In the early years, when the surrender value is less than the amount paid for premiums, it would be necessary to credit Lease Policy Account and debit either Lease Redemption Fund Account or Profit and Loss Account; and, in the later years, when the surrender value exceeds the premiums paid, a reverse entry would be required. As an example, assume a premium of £100 and a nominal surrender value immediately after payment, say, £5. We should have to credit Policy Account with £95, and either debit Lease Redemption Fund Account (leaving a balance of only £5); or the Lease Redemption Fund Account could be left at the full amount (£100) and the Profit and Loss Account debited with the £95, in addition to the £100 already charged for insurance. As there would be no intention of discontinuing the policy, the above method is not recommended, and there seems to be no more need to keep the policy at surrender value than there is to write down new machinery to break-up price.

(b) When a Policy Account is not Opened

The entries in the books will be as follows :—

(*a*) For the purchase of the Lease :—
By Lease on the *Cr.* side of the Cash Book.

(*b*) For the annual premiums paid to the Insurance Company :—
By Lease Insurance on the *Cr.* side of the Cash Book.

(*c*) For charging the Insurance, which takes the place of the annual depreciation, to Revenue :—

(JOURNAL.)

Profit and Loss . . .	*Dr.*
To Lease Insurance . . .	*Cr.*

The Lease Account remains open in the books until the end of the period, figuring each year on the assets side of the Balance Sheet. When the policy matures, the cash received will be debited in the Cash Book and posted to the credit of the Lease Account, thus closing it, and leaving in hand the money with which to purchase the new lease (or other asset, as the case may be).

(6) Revaluation Process

Nature and Use.—This method involves the process of stock-taking and valuing. It is adopted for assets which cannot always conveniently be dealt with under the other methods, namely, Horses, Casks, Bottles, Packages, Loose Tools, Patterns, Models,

Moulds, Trade Marks, Copyrights, Investments, etc. With many of these assets special considerations have to be taken into account. The difference arising from the revaluation is debited to Profit and Loss Account and credited to the Asset Account. If, however, the difference is a profit, instead of a loss, such appreciation is credited to Profit and Loss Account and debited to the Asset Account. Such instances, however, are rare. In certain cases, as with Investments, a loss or gain on revaluation is not carried to the Asset Account at all, but to a Reserve Account, as the difference may not be permanent but only temporary.

Disadvantage of this Method.—One disadvantage of writing off depreciation by this revaluation process is, that while the asset is rendering virtually the same services to the business year by year, the business gets charged with very unequal sums each year in respect of these services.

(7) Charging one sum to cover Repairs, Renewals, and Depreciation

Nature and Use.—As the name implies, this method is one in which a single amount is debited to Revenue annually for Repairs, Renewals, and Depreciation. The working of the method is shown in the illustration below:—

Dr. PLANT ACCOUNT. *Cr.*

[illegible]									
Dec. 31	To Cash . . .	10,000	–	–					
1913. Dec. 31	„ Additions .	1,000	–	–					
		11,000	–	–					
1914. Dec. 31	„ „ „	2,000	–	–					
		13,000	–	–					

Dr. DEPRECIATION ACCOUNT. *Cr.*

[illegible]					1913.				
Dec. 31	To Repairs and Renewals .	50	–	–	Dec. 31	By P. and L. A/c 5% on £10,000	500	–	–
„ „	„ Balance .	450	–	–					
		500	–	–			500	–	–
					Dec. 31	„ Balance . .	450	–	–
1914. Dec. 31	„ Repairs and Renewals .	100	–	–	1914. Dec. 31	„ P. and L. A/c 5% on £11,000	550	–	–
„ „	„ Balance .	900	–	–					
		1,000	–	–			1,000	–	–
1915. Dec. 31	„ Repairs and Renewals .	300	–	–	1914. Dec. 31	By Balance . .	900	–	–
					1915. Dec. 31	„ P. and L. A/c 5% on £13,000	650	–	–
„ „	„ Balance .	1,250	–	–					
		1,550	–	–			1,550	–	–
					1915. Dec. 31	„ Balance . .	1,250	–	–

It will be noticed that the additions are debited to Plant Account, and that the Repairs and Renewals are debited to Depreciation Account.

The balance of the Depreciation Account (which must always be a credit balance) shows the net amount set aside for depreciation and renewals. If the account became a Debit, it would be evidence that the provision had not been adequate. When this method is used, it is desirable that the assets be re-valued periodically, and it may also be necessary after a term of years to vary the annual amount set aside.

There is frequently difficulty in discriminating between "Repairs" and "Renewals"; and as the latter may safely be added to capital where adequate depreciation has been written off, there may be a temptation to do this when it is not justified. This method (7) obviates that difficulty.

Depreciation of Loose Tools, Etc.—In engineering firms, where they make their own tools, the stocks of such at the commencement and the close of the financial period are entered in the Trading Account. The cost of making the tools is included in the Materials and Wages Accounts; and, as these two items are both debited to Trading Account, any difference between the two stocks of tools is, therefore, a proper charge to the same Account.

Rates of Depreciation generally Adopted.—The following are the rates of depreciation generally adopted, though it is quite possible that special circumstances may make them higher or lower :—

Freehold Land and Buildings, 2½%–5% p.a.
Leasehold Land and Buildings, written off over the period of the lease.
Plant and Machinery, 5%–10% p.a.
Carts, Vans, Motor Lorries, etc., 10%–15% p.a.
Patents (life 14 years), $\frac{1}{14}$th of original cost each year. There is sometimes, as with Trade Marks, a residual value in the form of Goodwill caused by the trade these things have created.
Furniture, Fixtures, and Fittings, 2½%–7½% p.a.
Blast Furnaces, Gas Retorts, and Chemical Plant (subject to rapid depreciation and constant repair with little or no break-up value), the original cost divided by the number of years' life.
Engines (*movable*), 10%; (*fixed*), 7½% p.a.
Boilers (*high pressure*), 15%; (*low pressure*), 10% p.a.
Driving Gear, 5%–7½% p.a.
Rolling Stock :—
Locomotives, 10% p.a.
Wagons (life about 15 years), 7½% p.a.
Ships (life about 20 years), 5% p.a.
Casks (in breweries, distilleries, oil refineries), 10%–20% p.a., or re-valued yearly.

The above rates, except where otherwise stated, are for depreciation on diminishing balances, normal conditions and hours of working being assumed.

SINKING FUNDS

Definition.—A Sinking Fund is either (1) a charge against profits in order to provide for the replacement of a wasting asset such as a Lease, Plant and Machinery, etc., or (2) an appropriation of profits to repay a liability such as a Loan or Debentures. In each case, however, there is a corresponding amount of *cash* invested, so that the Sinking Fund may be immediately available when required, namely, by realising the investments. An example of a Sinking Fund to replace an asset has already been given under DEPRECIATION; an example of a Sinking Fund to repay a liability is shown hereunder :—

Example.—A sum of £6,000 is borrowed for a term of six years. It is resolved to provide for its repayment by means of a Sinking Fund, reckoning interest at 3 per cent. per annum. Show the Ledger Accounts of same over the whole period.

Dr. LOAN ACCOUNT. *Cr.*

Year.					Year.				
6	To Cash (repaid)	6,000	–	–	1	By Cash (borrowed)	6,000	–	–

Dr. LOAN REDEMPTION FUND ACCOUNT. *Cr.*

Year.					Year.				
1	To Balance c/d	927	11	8	1	By Appropriation A/c	927	11	8
2	To Balance c/d	1,882	19	11	2	By Balance b/d	927	11	8
						„ Cash (Interest)	27	16	7
						„ Appropriation A/c	927	11	8
		1,882	19	11			1,882	19	11
3	To Balance c/d	2,867	1	5	3	By Balance b/d	1,882	19	11
						„ Cash (Interest)	56	9	10
						„ Appropriation A/c	927	11	8
		2,867	1	5			2,867	1	5
4	To Balance c/d	3,880	13	4	4	By Balance b/d	2,867	1	5
						„ Cash (Interest)	86	–	3
						„ Appropriation A/c	927	11	8
		3,880	13	4			3,880	13	4
5	To Balance c/d	4,924	13	5	5	By Balance b/d	3,880	13	4
						„ Cash (Interest)	116	8	5
						„ Appropriation A/c	927	11	8
		4,924	13	5			4,924	13	5
6	To Transfer to Special Reserve A/c	6,000	–	–	6	By Balance b/d	4,924	13	5
						„ Cash (Interest)	147	14	10
						„ Appropriation A/c (Adjustment of 1d.)	927	11	9
		6,000	–	–			6,000	–	–

Dr. LOAN REDEMPTION FUND INVESTMENT ACCOUNT. *Cr.*

Year					Year.				
1	To Cash . . .	927	11	8	1	By Balance c/d . .	927	11	8
2	To Balance b/d . .	927	11	8	2	By Balance c/d . .	1,882	19	11
	„ Cash (Instalment plus Interest) .	955	8	3					
		1,882	19	11			1,882	19	11
3	To Balance b/d . .	1,882	19	11	3	By Balance c/d . .	2,867	1	5
	„ Cash . . .	984	1	6					
		2,867	1	5			2,867	1	5
4	To Balance b/d . .	2,867	1	5	4	By Balance c/d . .	3,880	13	4
	„ Cash . . .	1,013	11	11					
		3,880	13	4			3,880	13	4
5	To Balance b/d . .	3,880	13	4	5	By Balance c/d . .	4,924	13	5
	„ Cash . . .	1,044	–	1					
		4,924	13	5			4,924	13	5
6	To Balance b/d . .	4,924	13	5	6	By Cash . . .	6,000	–	–
	„ Cash . . .	1,075	6	7					
		6,000	–	–			6,000	–	–

Income Tax.—As previously mentioned, the interest on the investments is received *less tax* at the current rate for unearned income. To provide for this loss, a similar amount is debited to the Appropriation Account and credited to the Loan Redemption Fund Account. The Ledger Account of the previous example would then appear as on next page.

Difference between a Sinking Fund to replace a Wasting Asset, and a Sinking Fund to repay a Liability.—The difference should be very carefully noted by the student. In the first case, the accumulated profits are transferred to the Asset Account in order to close the latter. In the second case, the accumulated profits remain unused (the liability being repaid, not with profits, but with *cash* on account of these profits), and are transferred to Reserve Account. It shows very clearly that a Sinking Fund to replace a wasting asset is a *charge against* profits, and not an *appropriation of* profits, because the accumulations out of revenue are required, at the end of the period, to extinguish the Asset Account. Instead, therefore, of the asset being depreciated year by year, as in ordinary cases, it is depreciated in its entirety at the end of the period. Hence the Sinking Fund instalment, being equivalent to the annual depreciation, must be debited to the *Profit and Loss Account*, and not to the Appropriation Account. In the case, however, of a Sinking Fund to repay a Liability, the accumulated profits, as we have seen, remain unused at the end of the period. This shows that they are actual appropriations of profit. Hence the Sinking Fund instalment, in such cases, is debited to the *Appropriation Account*, and not to the Profit and Loss Account.

Dr. LOAN REDEMPTION FUND ACCOUNT. *Cr.*

Year.					Year.				
1/	To Balance c/d	927	11	8	1	By Appropriation A/c	927	11	8
2	To Balance c/d	1,882	19	11	2	By Balance b/d	927	11	8
						„ Cash (Interest less tax at 1s. 3d.)	26	1	10
						„ Approp. A/c (tax)	1	14	9
						„ Appropriation A/c	927	11	8
		1,882	19	11			1,882	19	11
3	To Balance c/d	2,867	1	5	3	By Balance b/d	1,882	19	11
						„ Cash (Interest less tax)	52	19	3
						„ Approp. A/c (tax)	3	10	7
						„ Appropriation A/c	927	11	8
		2,867	1	5			2,867	1	5
4	To Balance c/d	3,880	13	4	4	By Balance b/d	2,867	1	5
						„ Cash (Interest less tax)	80	12	9
						„ Approp. A/c (tax)	5	7	6
						„ Appropriation A/c	927	11	8
		3,880	13	4			3,880	13	4
5	To Balance c/d	4,924	13	5	5	By Balance b/d	3,880	13	4
						„ Cash (Interest less tax)	109	2	11
						„ Approp. A/c (tax)	7	5	6
						„ Appropriation A/c	927	11	8
		4,924	13	5			4,924	13	5
6	To Transfer to Special Reserve A/c	6,000	–	–	6	By Balance b/d	4,924	13	5
						„ Cash (Interest less tax)	138	10	2
						„ Approp. A/c (tax)	9	4	8
						„ Appropriation A/c (Adjustment of 1d.)	927	11	9
		6,000	–	–			6,000	–	–

RESERVES

A **Reserve** is defined as a charge made against profits, before arriving at the actual net profit, in order to make provision for an expected loss or liability, *e.g.*, Bad Debts Reserve, Reserve for Discounts, Reserve for Audit Fee. Examples of these have already been given in previous chapters. A Dividend Equalisation Reserve has also been explained in Chapter XIII.

Repairs and Renewals Reserve.—The necessary repairs and renewals each year may vary considerably as regards cost. One year the amount may be small, the next year nothing, and the following year very large. To avoid Revenue being charged each year with very unequal sums, a fixed amount is debited annually to Profit and Loss, and credited to a Repairs and Renewals Reserve Account. The actual cost of such repairs and renewals is then debited to the Reserve Account instead of to Profit and Loss. The

balance of the Reserve Account, at balancing time, is carried to the Balance Sheet. Other names are also used for this Account, viz., Repairs Equalisation Reserve, Maintenance Reserve, etc. The former term arises from the fact that the fixed amount debited to Profit and Loss Account each year *equalises* the annual charges against Revenue in respect of repairs and renewals. The second term originates in the fact that this Reserve is used for the purpose of *maintaining* the fixed assets in an efficient condition for revenue-earning purposes. Unfortunately, however, these terms, when used by different writers, have not always the same signification. A Maintenance Reserve, in some cases, includes provision for depreciation. Again, the terms "repairs," "renewals," and "replacements" are used, by some writers, in a very uncertain sense. But, generally speaking, "to repair" means to make efficient again, "renewals" signify the supplying of some small worn-out part or parts, and "replacement" denotes the provision of an entirely new, and perhaps improved, machine (or other asset).

Example.—A Repairs and Renewals Reserve is created by charging Revenue each year with a fixed amount of £150. The repairs and renewals for the ensuing four years are: (1) £136 14s. 8d.; (2) £108 15s. 9d.; (3) £189 16s. 4d.; (4) £117 18s. 5d. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

JOURNAL.

Year.		Dr.			Cr.		
1	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c				150	–	–
2	Repairs and Renewals Reserve A/c	136	14	8			
	To Repairs A/c				136	14	8
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c				150	–	–
3	Repairs and Renewals Reserve A/c	108	15	9			
	To Repairs A/c				108	15	9
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c				150	–	–
4	Repairs and Renewals Reserve A/c	189	16	4			
	To Repairs A/c				189	16	4
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c				150	–	–
5	Repairs and Renewals Reserve A/c	117	18	5			
	To Repairs A/c				117	18	5
	Profit and Loss A/c	150	–	–			
	To Repairs and Renewals Reserve A/c				150	–	–

Dr. REPAIRS ACCOUNT. *Cr.*

Year.					Year.				
2	To Cash . . .	136	14	8	2	By Repairs and Renewals Reserve A/c	136	14	8
3	To Cash . . .	108	15	9	3	By Repairs and Renewals Reserve A/c	108	15	9
4	To Cash . . .	189	16	4	4	By Repairs and Renewals Reserve A/c	189	16	4
5	To Cash . . .	117	18	5	5	By Repairs and Renewals Reserve A/c	117	18	5

Dr. REPAIRS AND RENEWALS RESERVE ACCOUNT. *Cr.*

Year.					Year.				
1	To Balance c/d . .	150	–	–	1	By Profit and Loss A/c	150	–	–
		150	–	–			150	–	–
2	To Repairs A/c . .	136	14	8	2	By Balance b/d . .	150	–	–
	„ Balance c/d . .	163	5	4		„ Profit and Loss A/c	150	–	–
		300	–	–			300	–	–
3	To Repairs A/c . .	108	15	9	3	By Balance b/d . .	163	5	4
	„ Balance c/d . .	204	9	7		„ Profit and Loss A/c	150	–	–
		313	5	4			313	5	4
4	To Repairs A/c . .	189	16	4	4	By Balance b/d . .	204	9	7
	„ Balance c/d . .	164	13	3		„ Profit and Loss A/c	150	–	–
		354	9	7			354	9	7
5	To Repairs A/c . .	117	18	5	5	By Balance b/d . .	164	13	3
	„ Balance c/d . .	196	14	10		„ Profit and Loss A/c	150	–	–
		314	13	3			314	13	3
					6	By Balance b/d . .	196	14	10

BALANCE SHEET (AT END OF YEAR)

Year.	*Liabilities.*			
1	Repairs and Renewals Reserve A/c . .	150	–	–
2	Repairs and Renewals Reserve A/c . .	163	5	4
3	Repairs and Renewals Reserve A/c . .	204	9	7
4	Repairs and Renewals Reserve A/c . .	164	13	3
5	Repairs and Renewals Reserve A/c . .	196	14	10

Note.—If, owing to excessive expenditure in any year, the balance of the Repairs and Renewals Reserve Account is placed temporarily in debit, such balance would still be carried to the Balance Sheet, to be recouped in subsequent years. This would, however, be a clear indication that an insufficient amount had been provided in the past.

RESERVE FUNDS

Reserve Fund is the term applied to the profits that have been put by and allowed to accumulate in order to increase the financial stability of a limited company. It may be invested in the business itself, in which case it is represented by an undivided portion of the general assets; or it may be separately invested outside of the business, by taking an equivalent amount out of cash and buying Consols or other gilt-edged securities therewith.

Reserve Account.—This is a term used by some eminent accountants to denote what others call a Reserve Fund, whenever the latter is not separately invested outside the business. They define a Reserve as the amount by which the assets side of the Balance Sheet exceeds the paid-up Capital and liabilities. When this surplus is represented by a separate investment, they call it a Reserve Fund; when it is not so represented, they term it a Reserve Account. Other leading accountants, however, do not agree with this, contending that the mere place of the Fund does not alter its character. So long as it is composed of assets acquired out of actual profits that have been reserved instead of divided, it is a Reserve Fund whether it is invested in the business itself or outside of it. A Reserve Account is also called a Surplus, a Margin, and a Rest. And further, it may be composed of transfers from Revenue, and also of Capital profits, such as Premiums on Shares, Profits prior to Incorporation, etc.

Should a Reserve Fund be Separately Invested?—The object of investing a Reserve Fund outside the business is that the Fund can be made immediately available whenever the money is required, simply by realising the investments. Whether it should be so invested or not depends entirely on circumstances. If the business has plenty of spare cash, then nothing could be urged against such a proceeding, provided sufficient is retained to take advantage of cash discounts and so reduce the cost of purchases, which would be a much better return than interest on Consols. Such a course, however, is not commendable when a business needs all the cash it possesses. It would obviously be foolish finance for a company to lock up its available cash in outside securities yielding 2½ or 3 per cent., and then borrow money at 4 or 5 per cent. in order to carry on its business.

Difference between a Reserve and a Reserve Fund.—A Reserve is merely a *charge against* profits; a Reserve Fund represents *actual* profits, which have been reserved instead of being divided.

Difference between a Reserve Fund and a Sinking Fund.—A Reserve Fund is not made for any definite purpose, but merely for *contingencies*. A Sinking Fund is made for some *specific* purpose, such as the replacement of a wasting asset, or the repayment of a loan or debentures. A Sinking Fund *must* be invested, a Reserve Fund *may*.

MARINE INSURANCE FUND

Object.—The object of a Marine Insurance Fund is to enable large steamship companies to insure their own vessels, instead of paying premiums to outside insurance companies. Part of a ship or ships, or part of a fleet, is usually insured first, the remainder being insured with Lloyd's or other offices. This is done in order to prevent a heavy loss falling on the Fund while small, and possibly extinguishing it. As the Fund grows, so the internal insurance operations are extended.

Method of Procedure.—A certain amount of profit is appropriated year by year and credited to a Marine Insurance Fund, which is separately invested and allowed to accumulate, the interest received on such investments being also invested. The proportion applicable to each ship, an amount at least equal to the outside insurance premium, is debited to the voyage account and credited to the fund. The fund is also debited with all losses, average claims, salvage claims, reinsurances, expenses of administration, and losses (if any) on sale of the investments; it is credited with refunds, salvages, and interest accrued on the investments. The credit balance of the fund figures year by year on the liabilities side of the Balance Sheet, and the investments on the assets side.

Division of Profits.—When the fund, after a proper valuation, is in excess of contingencies, the surplus is considered to be profit divisible like other profits.

SECRET RESERVES

A Secret Reserve is a surplus, the existence of which is not shown on the Balance Sheet.

How Secret Reserves are Made.—Secret Reserves are made in various ways:—

(1) By excessive depreciation of assets, such as writing down Premises, Investments, etc., below their proper value.

(2) By undervaluation or omission of assets. Assets may be shown at cost though they have greatly appreciated. Stock-in-trade may be valued much below its actual price. Some companies omit their Goodwill, though it may be of enormous value. The Bank of England omits from its Balance Sheet the value of its Premises.

(3) By creating unnecessary or excessive Reserves for Bad Debts, Discounts, etc., or for fictitious liabilities.

(4) By charging capital expenditure to revenue, as, for instance, debiting Additions to Buildings to the Profit and Loss Account instead of to the Buildings Account. On the Balance Sheet

the Buildings would thus appear at less than their proper value.

Advantages of Secret Reserves.—The advantages claimed for them are :—

(1) They promote financial stability. Extraordinary losses can be met out of such "undisclosed" or "hidden surpluses" instead of out of Revenue, thus preventing the dividend being reduced and public confidence shaken. Banks and insurance companies often have recourse to such methods.

(2) They enable a normal rate of dividend to be maintained—not only for the above reason (1), but also because they enable unduly fluctuating profits to be manipulated, and steady, progressive results to be shown.

(3) They advance the interests of the undertaking. By means of secret or "inner" reserves, huge profits can be concealed from business rivals, whereas the publication of such profits would stimulate competition, and perhaps injure the company's trade.

Disadvantages of Secret Reserves.—The objections raised against the practice of creating secret reserves are :—

(1) The shareholders have not a full knowledge of the company's affairs, inasmuch as the published accounts are inaccurate and misleading. The Trading and Profit and Loss Accounts do not show the true profits. The Balance Sheet is not a correct representation of the state of affairs, because some of the liabilities may be overstated, while some of the assets may be undervalued and even omitted altogether.

(2) Secret Reserves are dangerous resources. For while they can be utilised to meet exceptional losses sustained through depreciation of Investments, etc., they can, with equal facility, be used to conceal losses arising from bad management or reckless speculation.

(3) Concealment of facts and manipulation of figures are bad in principle; and while they may sometimes serve the company's interests, they may also be, and frequently are by unscrupulous directors, used to the company's detriment. Suspicions may be aroused which will weaken or destroy confidence in the management much more quickly than a policy of straightforward dealing, even in adverse circumstances.

Whether or not a company is justified in creating secret reserves is a subject upon which much discussion has taken place. There is no doubt that in the case of banks and similar institutions, where the implicit confidence of the public is vital, the creation of secret reserves is to be recommended, as they are undoubtedly a source of strength to the business, and they enable these institutions to pass through periods of crisis and severe depression without the possibility of confidence being impaired in the slightest degree. The

case of those concerns to whom implicit public confidence is not vital is rather different, and there is not the same need for secret reserves. The practice of creating such reserves is favoured by some accountants and condemned by others. It would be unwise to dogmatise on the subject, as the position of each individual company must be considered, and in the long run it would have to be left to those who controlled the financial affairs of a business as to whether or not secret reserves should be created.

QUESTIONS ON CHAPTER XVI

A

1. Define Depreciation. Discriminate between Depreciation, Fluctuation and Wear and Tear.
2. What are the causes of depreciation?
3. State briefly some of the reasons for charging depreciation.
4. Explain the meaning of the following terms:—"life" of an asset, "residual" or "break-up" value, to scrap, obsolescence. How is the loss sustained by obsolescence treated?
5. State briefly what is meant by the phrase: repairs, renewals, and replacements.
6. What entries are necessary in the books when an asset is depreciated?
7. What methods of depreciation are there?
8. Explain briefly the nature and use of the "fixed instalment" method of depreciation. Can this method be advantageously used for all assets?
9. Explain briefly the nature and use of the "diminishing balance" method of depreciation. What advantages does this method possess?
10. State the mathematical formula for ascertaining the rate per cent. of depreciation, when it is required to write down an asset, at an equal rate each year on the diminishing balance, in order to reduce it to residual value.

B

1. What methods are there in vogue with reference to the depreciation of "additions" to an asset? Give examples to illustrate your answer.
2. Explain briefly the nature and use of the "annuity system" of depreciation. What disadvantage attaches to it?
3. What is meant by "Depreciation Tables"? Explain briefly their construction and use.
4. Explain briefly the nature and use of the "depreciation fund principle" of depreciation. What other terms are used for Depreciation Fund?
5. What object is sought by investing cash on account of a Depreciation Fund? Is profit ever invested?
6. State briefly the procedure, at the end of the period, in connection with a Depreciation Fund Investment.
7. In what different ways can provision be made for depreciation of a Lease? Give examples.
8. How is the loss of interest on investments, by reason of income tax, adjusted in Depreciation Funds and Sinking Funds?
9. Explain briefly the nature and use of the "insurance policy system" of depreciation.

10. State briefly the entries required in the books under the "insurance policy" method of depreciation:—
(*a*) When a Policy Account is opened.
(*b*) When a Policy Account is not opened.
State also in each case the procedure when the insurance policy matures.

C

1. Explain briefly the nature and use of the "revaluation process" of depreciation. What disadvantages attach to it?
2. State briefly the rates generally adopted in the case of some of the more common assets.
3. What is a Sinking Fund? Must there be an investment of cash in connection therewith?
4. State briefly the difference between a sinking fund to replace a wasting asset, and a sinking fund to repay a liability.
5. What is a Reserve? Name some of the most common ones.
6. Explain the purpose and *modus operandi* of a Repairs and Renewals Reserve. Discriminate between "repairs," "renewals," and "replacements."
7. What is a Reserve Fund? Must it be separately invested? How does it differ from a Reserve Account? What is a Marine Insurance Fund?
9. Differentiate between a Reserve, a Reserve Account, a Reserve Fund, and a Sinking Fund. Explain the terms "surplus," "margin," "rest."
10. What is a Secret Reserve? How are Secret Reserves formed? State briefly the advantages and disadvantages of Secret Reserves.

EXERCISE XVI

1. A Lease is purchased for a term of four years by payment of a sum of £440. Show how the Lease Account would appear in the books during this period, depreciation being written off by equal annual instalments.

2. Machinery is bought for £3,000. Its life is estimated to be six years, and its break-up value at the end of this period £534. Show the Machinery Account for the six years, writing off depreciation at a fixed rate per cent. on the diminishing or reducing value of the asset.

3. Machinery is purchased for a sum of £3,000. Additions are made in June of the second year to the amount of £250, and in March of the third year to the extent of £320. Show by means of ledger accounts the various methods of dealing with these additions when writing off the annual depreciation, the rate of which is 10% on the balance of the Plant and Machinery Account.

4. A Lease is purchased for a term of seven years by payment of £2,000. It is proposed to depreciate the Lease by the annuity method, charging 5% interest. Show the ledger account of the asset during this period.

5. £2,000 is paid for a Lease for a term of seven years. It is desired to write this amount off by means of the depreciation fund method, it being necessary to raise a similar amount, at 5% compound interest, in order to replace the Lease at the end of the period. Show the ledger accounts dealing with this matter.

6. A firm buys Plant and Machinery for £5,000. Its life is estimated at ten years. The firm decides to take out an insurance policy in order to provide for renewal. What entries will be necessary in the books?

7. A firm possesses Investments valued at the commencement of the year at £10,586. At the end of the year the Investments are re-valued at market price, and they are then found to be worth £8,972. How (if at all) would you deal with the matter in the firm's books and Balance Sheet? Supposing they had been valued at £11,000, how would you deal with the matter?

8. An engineering firm has Loose Tools valued at the commencement of the year at £1,026 15s. 11d. At the end of the year, stock is taken and the Loose Tools are found to amount to £1,207 11s. 4d. How would you deal with this matter in the firm's books? Supposing they had been valued at £987 10s. 5d., how would you deal with the matter?

9. A Repairs and Renewals Reserve is created by charging Revenue each year with a fixed sum of £200. The repairs and renewals for the ensuing four years are: (1) £159 17s. 9d.; (2) £125 14s. 6d.; (3) £269 15s. 3d.; (4) £225 16s. 11d. Show the Journal, Ledger, and Balance Sheet entries relating to the above.

10. Give definitions of, and differentiate, the following well-known terms: (*a*) Reserve; (*b*) Reserve Fund; and (*c*) Sinking Fund. In the case of a Limited Company, what would guide you in deciding as to whether an amount was a Reserve, or Reserve Fund?—(*National Union of Teachers.*)

11. In what way, in a well-conducted Company business, are Leasehold Properties, Patent Rights, and Fixed Plant and Machinery, dealt with in the Company's books? Under what circumstances, and to what extent, ought a Company, registered under the Companies Acts to provide a Reserve Fund?—(*London Chamber of Commerce.*)

12. How would you treat, in a Manufacturer's Books, works held under a Lease of which twenty years remained unexpired, the consideration for which stood in the Ledger at £3,500; and how would you treat Patent Rights expiring in ten years, the consideration for which stood in the same Trader's Ledger at £850?—(*London Chamber of Commerce.*)

13. In preparing the Profit and Loss Account of a manufacturing firm what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; or (*b*) effluxion of time, as in the case of a building erected upon leasehold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect?—(*London Chamber of Commerce.*)

14. A company having a Lease standing in their books at £5,000, decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the Lease expires and the policy matures?—(*Royal Society of Arts.*)

15. James Jowit & Co., printers, purchased three monotype machines on

1st January, at a cost of £1,000 each. The firm's engineer reports that, with care and proper repairs, the machines will remain efficient for ten years. At the end of that period, the machines will be sold. The current market price of machines of this type after ten years' use is about £100 each.

You are asked, as book-keeper to the firm, to advise as to how the depreciation on the above machines should be treated in the books of the firm. Submit alternative methods for the consideration of the partners, and state which you prefer, and why.—(*London Chamber of Commerce.*)

16. What is a "Secret Reserve"? Give two examples showing how a bank, or other "financial house," could create a "Secret Reserve."—(*Royal Society of Arts, Accounting and Banking.*)

17. The Directors of the Old Time Spinning Company decide to replace entirely their Plant, which is now out of date. Having advertised for tenders for the new machinery they require, they accept that sent in by Messrs. A B & Co., amounting to £8,850.

The old Machinery and Plant Account stood in the books of the Company at £5,400. There was also a Depreciation Fund in the books, the accumulated credit balance of which amounted to £1,050. Some of the materials composing the old machinery were found to be in good condition, and Messrs. A B & Co. agreed to take over shafting, etc., valued at £550, for use again; whilst the remainder was put up to auction and realised £1,200 (net).

Make the entries necessary to record these transactions in the books of the Old Time Spinning Company, and state how you would deal with the balance of the old "Machinery and Plant Account"?—(*London Chamber of Commerce.*)

18. State briefly the facts that would guide you in arriving at the proper amount of depreciation to provide for upon the Machinery and Plant used in a manufacturing business; and set out the entries you would pass through the books to give effect to the decision arrived at.—(*London Chamber of Commerce.*)

19. On 1st January, 1910, a Manufacturer buys Plant £1,000; on 1st July, 1911, he buys new Plant £200, and on 31st Dec. he sells for £80 Plant costing 1st Jan., 1910, £150. On 1st April, 1912, he buys new Plant £140, and on 1st Oct., 1913, sells for £35 Plant costing 1st July, 1911, £60. His plant is depreciated in the books annually at 31st Dec. at the rate of 5% per annum on the original cost. At 31st Dec., 1914, he wishes to alter this method, for the whole period, to 7½% per annum on the diminishing value. Prepare Machinery Accounts showing the result of both methods.—(*West Riding of Yorkshire.*)

20. The following balances composed the Balance Sheet of John Brown, Limited:—Cash £6,000, Bills Receivable £1,200, Sundry Debtors £2,500, Stock £5,000, Capital £10,000, Bills Payable £800, Sundry Creditors £1,400 Divisible Profit £2,500.

It was resolved to start a Reserve Fund with such an amount of the Balance of Profit as would, when invested, purchase £1,500 Consols at 85 (charges neglected).

You are requested to give the necessary Journal entries to effect this; then set out Ledger Accounts for Investments, Reserve Fund, and Profit and Loss; also draw up a new Balance Sheet showing these changes.—(*National Union of Teachers.*)

21. Describe a Municipal Corporation's Sinking Fund:—
(*a*) As to method of contributions to same.
(*b*) As to interest received on instalments invested.
—(*Lancashire and Cheshire Union.*)

22. When calculating the annual Sinking Fund to replace the cost of a Lease, or other terminable benefit, why should Compound Interest be taken into account, thereby making the amounts carried to the Fund in the earlier years comparatively small, and in the later years comparatively large, instead of setting aside equal annual sums?—(*Chartered Accountants.*)

23. On the 1st January the M N Co., Ltd., purchased the Lease of certain premises for £1,000. The Directors decided to form a Sinking Fund to accumulate this amount at the end of the Lease, which had five years to run, the rate of interest being taken at 3%. The requisite sum is to be transferred annually from Profit and Loss Account, and a corresponding amount invested in securities producing the required rate of interest. According to the Tables, £0·1884 per annum amounts to £1 in five years at 3%. Write up the Sinking Fund Account, the Sinking Fund Investment Account, and the Interest Account for the first three years. You may show your calculations in decimals. —(*Chartered Accountants.*)

24. You, as Secretary of the National Industries Co., Ltd., receive from Mr. T. Head, a shareholder in the company, the following letter:—"I have received from the National Industries Co., Ltd., a copy of its Balance Sheet of 31st December last. There is one point on which I am not quite clear, and that is the meaning of 'Reserve Fund, £50,000' on the Liabilities side of the Balance Sheet. It seems to me to be on the wrong side, for I cannot see how a Fund can be a liability. I shall be much obliged if you will explain the matter, and tell me where the 'Fund' is, and why it is not invested in outside securities."
Write an answer to this letter. The Reserve Fund in question has been accumulated out of trading profits. What would you substitute for the words "Reserve Fund" so as to avoid the above misunderstanding?—(*Chartered Accountants.*)

25. Sometimes provision is made for depreciation of plant by writing off a fixed proportion of the original cost in each year, and sometimes by writing off in each year a fixed percentage of the balance of the account as it stood at the commencement of that year. Supposing that it is desired to write machinery which cost £1,000 down to (say) £600 at the end of the fifth year, state the amount that would be charged against each year's profits under each of these two systems.—(*Institute of Secretaries.*)

26. On 1st January the A Company, Ltd., acquired a fifty years' lease of its business premises, paying therefor £10,000. It was decided to provide for depreciation by setting aside £90 per annum as a Sinking Fund, and on 31st Dec., the amount so set aside had (with interest) accumulated to £2,400. On 31st December, 20 years later, the Directors obtained from an insurance company a policy assuring them the payment of £10,000 at the end of thirty years, in consideration of an annual premium of £220, the first premium being paid upon that date; and having thus provided for the redemption of Capital they gave instructions that the £2,400 accumulated during the past twenty years should be stated in the Balance Sheet dated 31st December, as "Reserve Fund."

Do you consider this treatment correct? Give reasons for your answer. —(*Institute of Secretaries.*)

27. The X Co., Ltd., by its Articles of Association, is required to set aside and invest the sum of £1,000 per annum before declaring any dividends, in order to provide for the redemption of £40,000 Debentures redeemable in twenty-five years. At the end of that time the instalments so set aside have accumulated at compound interest to £41,645. The investments have been sold, and the Debentures repaid out of the proceeds of such sale. State how you would deal in the Company's B/S. with the credit balance of £41,645 representing the accumulation of the annual instalments.—(*Institute of Secretaries.*)

28. State the different ways in which annual provision can be made to meet the depreciation of leasehold property. Which do you prefer? Give your reasons.—(*Chartered Accountants.*)

29. A Trading Company takes out a Capital Redemption Policy with an Insurance Company to provide for a wasting Asset, paying £80 per annum premium. The premium is to be provided out of revenue. Give examples showing the entries to be made in the books of the Trading Company (1) annually, and (2) upon payment of the Capital sum by the Insurance Company. —(*Chartered Accountants.*)

30. On 31st December the City Trading Co., Ltd., had a Debenture Reserve Fund of £50,000, represented by investments amounting to £59,000 2½% Consols. The Company also had a balance in the Bank on Current account at 30th June following of £6,000. The Debentures, amounting to £50,000, were paid off on 30th June. To provide for this the Consols were realised at 83 net, and the proceeds paid into the Bank on 30th June. Record the above transactions in the books of the Company, and show the ledger accounts affected.—(*Chartered Accountants.*)

31. A Company insured for its own benefit the life of the managing director for £10,000, at an annual premium of £250. How would you expect the outlay to be dealt with in the accounts submitted to you for audit?—(*Chartered Accountants.*)

32. The Turbine Steamer Co., Ltd., owns a Fleet of fourteen steamers trading to the Eastern Seas. These boats are at present insured in the ordinary way at Lloyd's, but the Company desires to effect its own insurance for the future. Explain briefly what steps should be taken to inaugurate an internal Marine Insurance Fund, and state what entries would appear in the books and annual accounts of the Company when the fund was in operation.—(*Royal Society of Arts: Accounting and Banking.*)

REVISION EXERCISE XVI

1. Record the following transactions of Baker & Kay, manufacturers and merchants, London, in Cash Book and Journal. Only the transactions not suitable for the Cash Book are to be entered in the Journal.

Except when cash is stated, all payments are made by cheque and receipts are lodged in bank on day of receipt.

May	1.	Cash in hand			£25	2 6
	,,	Bank Overdraft			1,210	7 –
	2.	Paid for Bill Stamps in cash			5	– –
	5.	Received from Morris & Co.			818	18 –
	,,	Discount allowed to them			43	2 –
	8.	Received from A. Richard invoices for :—				
		New Machinery bought from him			750	– –
		Repairs to Machinery executed by him			15	10 –
	11.	Received from P. Brown two Acceptances at 3/m./d. and 4/m./d. each for			1,000	– –
	14.	Discounted the 3/m./d. one at Bank yielding			987	10 –
	16.	Paid Jackson Bros. thus :—				
		Indorsed and handed them P. Brown's Acceptance at 4/m./d. for £1,000, for which they gave credit			983	13 4
		By Cheque			96	6 8
		Discount allowed by them			120	– –
	18.	Accepted Campbell & Co.'s Bill for			325	– –
	20.	Goods sold for Cash			8	5 6
	22.	Paid Nixon Bros.			36	2 –
	,,	Discount allowed by them			1	18 –
	23.	Consigned to R. Scott, Montreal, Goods invoiced at			1,262	10 –
	,,	Paid Freights and Insurance thereon			37	5 6
	25.	Accepted Composition in full of A. Thompson's account for £70, on which he was entitled to 5% discount			50	– –
		Transferred loss thereon to Bad Debts Account.				
	27.	Received from Small & Sharp, their solicitors, as detailed below			1,260	5 –
		Proceeds of an Investment belonging to Mr. Kay, which he agrees to lodge as additional Capital.	£1,050 – –			
		Proceeds of a Warehouse sold for the firm, which stood in the books at £640	630 – –			
			1,680 – –			
		Less Mortgage on Warehouse paid off	£400 – –			
		Less their business charges against the firm	12 5 –			
		Less their business charges against Mr. Kay	7 10 –			
				419 15 –		
		As above		£1,260 5 –		
	28.	Lent to J. Mitchell for three months			£100	– –
		Drew Bill on him, which he accepted, for			101	12 –
		Being :—				
		Above Loan	£100 – –			
		Interest thereon	1 10 –			
		Bill Stamp	2 –			

May 29.	Received Consignment from Robinson Bros., New York	£640	–	–
„	Paid Charges thereon	22	15	–
30.	Sold these Goods to F. Field, and received his Cheque for	665	–	–
„	Rendered Account Sales to Robinson Bros., and sent them Cheque, being proceeds less 5% commission and charges paid	609	–	–
„	Cheque drawn for Cash	350	–	–
„	Paid Salaries and Wages for month:—			
	By Cheque	20	–	–
	In Cash	343	8	6

—(*Civil Service, 2nd Division Clerks.*)

2. Lewis & Co. sell and ship to Armstrong & Sons, Iquique, sundry goods invoiced at cost £1,004 11 8
The Freight Insurance and Dock Charges were . . 89 6 4
The Buying and Shipping Commission charged was . 30 2 –

Total of Invoice was . . . £1,124 – –

Lewis & Co. drew on Armstrongs for that amount, and secured an advance of £650 from the bankers through whom they were forwarding the documents. The draft was duly accepted.

At due date of draft Armstrongs paid one-half and gave a bill for the balance, plus 6% interest per annum for six months.

The bankers were repaid their advance by Lewis & Co., and the extended bill was met at maturity by Armstrongs.

Frame Journal entries to record properly the whole of the above transactions in the books of (1) Lewis & Co., (2) Armstrong & Sons. (Narrations are essential.)—(*Civil Service, 2nd Division Clerks.*)

3. The following items appear in a manufacturing company's books:—

Rent, Rates, and Taxes	£1,200
Lighting, Heating, etc.	340
Total Wages and Salaries	4,900
Carriage Inwards	200
Plant, Repairs, and Renewals	185
Discounts on purchases	210
Discounts and Allowances made on Sundry Debtors Accounts	190
Managing Director's Remuneration	1,000

The factory portion of the premises is ⅘ths of the whole building.

The office salaries and wages amount to £500.

Electric power charges amounting to £120 were included in the item of lighting, heating, etc., and an amount of £15 accrued for power had not been included.

Frame the necessary Journal entries to transfer the proper items to Trading Account or Profit and Loss Account as the case may be.—(*Civil Service, 2nd Division Clerks.*)

4. A draws a bill of exchange on B, for goods supplied, for £10,000, dated 1st January, at six months, and, on B's acceptance of the same, discounts it with C on 4th January, at 5% per annum. The Bill is dishonoured at B's Bankers on presentation, the charges for noting and expenses being 5s.

B pays A cash £4,000 on account on 5th July, and accepts three bills for the balance then due, together with interest at 5% per annum, of equal amounts, payable at two, four, and six months respectively. Show these transactions in A's ledger.—(*Chartered Accountants.*)

5. The Midland Steel Company, Limited, consigned to its Australian Agents, Murray & Co., of Sydney, 125 tons of Steel Bars per s.s. *Tantallon Castle.* Murray & Co. paid for Landing Charges £15, Carting £10, Warehousing £6, Insurance £1, and Advertising £5. On 1st July, they sold the Steel by auction as follows :—

25	tons	at	£10	per	ton
30	„	„	£9 10s.	„	„
30	„	„	£9 5s.	„	„
40	„	„	£9	„	„

They charged commission at 5 per cent. Make out in proper form the Account Sales rendered by Murray & Co. to the Midland Steel Company, Limited showing the balance due, for which Murray & Co. sent a Bill at 30 days after sight, and record the transactions in the books of Murray & Co.—(*Chartered Accountants.*)

6. The X Y Company, Limited, keep their ledgers on the " self-balancing " system. On 31st Dec., the Sales Ledger Account in the Private Ledger showed a debit balance, brought down 31st Dec. of the previous year, of £4,031. During the year the total Sales were £35,422, and Returns Inwards were £625, The Cash received during the year and posted to the Sales Ledger was £31,125. The Discounts Allowed on accounts in the Sales Ledger amounted to £1,314. Transfers from the Bought Ledger to the Cr. of Sales Ledger Accounts, £720. Transfers from the Sales Ledger to the Dr. of Bought Ledger Accounts, £1,052. Bills Receivable posted to the Sales Ledger, £2,035. Write up the Sales Ledger Account and show the balance brought down at 31st December. What does this balance represent ?—(*Chartered Accountants.*)

7. P and Q are in partnership, and their annual Accounts are made up to 31st March. P died on 1st August following. Q paid the total amount due to P's representatives on 30th September. Their agreement provides that no interest is payable upon capital, but that on the death of a partner (which terminates the partnership) he is to be credited with a proportion of profit to the date of death, based upon his share for the preceding year, and thereafter with interest upon his capital at 5% per annum. Any other sum to his credit also carries interest at 5% per annum. P's capital, as shown by the last Balance Sheet, was £6,500. P's profit for the preceding year was £750, and was still undrawn at the date of death. Show the separate amounts payable to him for capital, profit, and interest to that date.—(*Chartered Accountants.*)

8. On 1st January A admits B into partnership. The agreed value of the assets of A's business is as follows :—

Leasehold Premises . . .	£2,000
Fittings and Furniture . .	480
Stock	4,600
Book Debts	800
Cash in hand	50

His liabilities to trade creditors amount to £1,500, and his indebtedness to his bankers is £2,950. Under the terms of partnership B pays £4,000 to his Bankers, of which £1,000 is credited to A as the purchase money of one-half

of the goodwill. Draft the Journal entries for opening the books of the partnership.—(*Chartered Accountants.*)

9. On 1st January, the Balance Sheet of Ambrose & Co., was as follows :—

Sundry Creditors	£5,000	Sundry Debtors	£6,000
Bills Payable	2,500	*Less* Reserve	100
Mortgage on Land and Buildings	5,000		£5,900
Partners' Capital	23,500	Bills Receivable	600
		Land and Buildings	10,000
		Plant and Machinery	7,000
		Horses and Vehicles	500
		Balance at Bank	2,000
		Stock on hand	8,000
		Work in progress	2,000
	£36,000		£36,000

By an agreement Messrs. Ambrose & Co., on 1st Jan., agreed to sell the business as a going concern to a company of the same name for the sum of £37,500.

The nominal capital of the company was £50,000, of which 10,000 shares of £1 each had been issued for cash, all paid on allotment.

The purchase consideration of £37,500 was to be satisfied by the allotment of £32,500 shares of £1 each and the payment of £5,000 in cash.

The whole of the assets were included in the sale with the exception of the balance at bank, and the company was to take over the whole of the liabilities with the exception of the mortgage, which was to be discharged by the vendors.

Included in the purchase price is an amount for goodwill.

(*a*) Frame the Journal entries to open the necessary accounts in the company's books upon completion of purchase, giving narrations in each case.

(*b*) Draw a Balance Sheet showing the company's position at completion of purchase.—(*Civil Service, 2nd Division Clerks.*)

10. The directors of a Limited Liability Company (having an authorised capital of £120,000), issue a prospectus inviting applications for 100,000 shares of £1 each, and stating that 10,000 shares will be issued in addition as fully paid to the Vendor in part payment of purchase money. 2s. 6d. per share is payable on application, 2s. 6d. per share on allotment, 5s. per share three months after allotment, and 10s. per share six months after allotment. The Capital offered was over-subscribed by 10,000 (ten thousand) shares. The amount due on allotment was received in full. The sum of £24,000 was received in respect of the first, and £48,000 in respect of the second call. The purchase money is stated to be £80,000, viz. :—

Land and Buildings	£35,000
Stock and Work in Progress	15,000
Machinery and Plant	20,000
Goodwill	10,000
	£80,000

Make the Journal entries necessary to open the books of the company, and to record the payment of the instalments, stating where the details of calls in arrear should be found.—(*Chartered Accountants.*)

11. The Silver Ore Company, Ltd., was formed on 1st April, with an Authorised Capital of £60,000, divided into 30,000 Ordinary Shares of £1 each and 30,000 5 per cent. Cumulative Preference Shares of £1 each. The whole of the Ordinary Shares were issued and fully paid, but of the Cumulative Preference Shares 22,000 only were issued, and of these 21,900 were fully paid, but on the remaining 100 shares 15s. only had been paid. From the following Trial Balance prepare Balance Sheet, Trading Account, and Profit and Loss Account on 1st April following.

	Dr.	*Cr.*
Ordinary Share Capital		£30,000 – –
Preference Share Capital		21,975 – –
Balance at Bank	£10,550 – –	
Crushing Plant and Machinery	4,000 – –	
Cost to date of sinking Mine	2,000 – –	
Land	20,000 – –	
Expenses of promotion of Company	600 – –	
Royalties paid	1,000 – –	
Silver sold (cash)		17,000 – –
Other minerals sold (including coal used by the Company)		950 – –
Light Railway, cost	1,200 – –	
Wages of Miners, etc.	6,900 – –	
Waggons	500 – –	
Bank Interest		270 – –
Advertising	500 – –	
Carriage paid on crushing Plant and Machinery	180 – –	
Erection of Sheds, etc.	1,500 – –	
Legal Expenses	100 – –	
Oil	200 – –	
Repairs to Plant	90 – –	
Coal bought	300 – –	
Coal used from own Mines	150 – –	
Office Furniture	150 – –	
Salaries	2,000 – –	
Interim preference dividend, paid 2nd Oct., 5 per cent. per annum, less tax	521 18 2	
Cash in hand	53 1 10	
Directors' Fees	700 – –	
Investment in Rosario Tin Mines, 2,000 Ordinary shares, £5 each, £4 paid	8,000 – –	
Brokers' charges, etc., on same	100 – –	
Dividend received thereon		320 – –
Deposit Account at Bank, 3 per cent. per annum	8,900 – –	
Interest received to 31st December		120 – –
Loose Tools	440 – –	
	£70,635 – –	£70,635 – –

Depreciate Plant and Light Railway at 15 per cent. per annum. Waggons are valued at £400, and Loose Tools at £300. Promotion Expenses to be charged over a period of three years. Value of Silver on hand, £1,500. On 21st December, the Directors decided to forfeit the 100 shares on which only 15s. has been paid up.—(*Lancashire and Cheshire Union.*)

12. The following is a Trial Balance extracted from the books of the

Pleasant Hotel Co., Ltd., on the 31st Dec., from which you are required to prepare Revenue Account and Balance Sheet.

Nominal capital, £25,000, divided into 10,000 5 per cent. Cumulative Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each, and 5,000 Deferred Ordinary Shares of £1 each.

Issued—						
8,500 5 per cent. Cum. Preference Shares fully paid					£8,500	– –
9,000 Ordinary Shares fully paid					9,000	– –
5,000 Deferred Ordinary Shares issued to Vendors as fully paid.					5,000	– –
Purchases—Beer, Wine, and Spirits, etc.	£5,450	– –				
Provisions	4,580	– –				
Wages and Salaries	5,230	– –				
Rates, Taxes, Insurance, Licences, etc.	1,890	– –				
Laundry	313	– –				
Takings—Beer, Wines, Spirits, etc.					7,862	– –
Sales of Food					6,263	– –
Coals	129	– –				
Carriage and Porterage	236	– –				
Sundry Trade Expenses	584	– –				
Advertising	471	– –				
Repairs	208	– –				
Apartments					8,191	– –
Billiards					212	– –
Sundry receipts					159	– –
Discounts received					390	– –
Transfer Fees					6	– –
Freehold Land and Buildings	35,000	– –				
Furniture and Fittings	3,671	– –				
Stock on hand, 1st January :—						
Beer, Wines, Spirits, etc.	2,128	– –				
Provisions	320	– –				
Cash in hand	123	12	11			
Parr's Bank, Ltd.					2,212	– –
Preliminary expenses of formation of Company	864	– –				
200 4½ per cent. 1st Mortgage Debentures of £100 each					20,000	– –
Debenture Interest paid less tax to 31st October	706	5	–			
Profit and Loss Account, 1st January					1,510	– –
Sundry Creditors					4,980	– –
Investments	5,069	– –				
Goodwill at cost to Company	10,000	– –				
Interim Dividend on Preference Shares, half-year to 30th June	200	2	1			
Reserve Fund					5,000	– –
Debtors for apartments not yet entered	152	– –			152	– –
Additions to freehold	2,112	– –				
	£79,437	– –			£79,437	– –

Reserve for Debenture Interest, less tax at 1s. 2d. in the £; Wages and Salaries, £128. Stock, 31st December: Beer, Wines, Spirits, etc., £2,520; Provisions, £164.

Depreciate Furniture and Fittings 5 per cent. for the year; Land and Buildings nil.

Also make out Profit and Loss Appropriation Account assuming that after the Ordinary shareholders are allowed 10 per cent. free of tax, it is suggested the Deferred Ordinary shareholders are to be paid a dividend of 10 per cent. free of tax, and the balance carried forward to next year.—(*Lancashire and Cheshire Union.*)

13. THE *WEEKLY BANNER*, LIMITED.

TRIAL BALANCE.—31ST MARCH.

	£ s. d.	£ s. d.
Cash Sales (Newspapers)		642 6 2
Agents' Sales		4,397 13 3
Advertisements charged		6,869 18 7
Cash in hand	53 5 5	
Agents' Returns	359 2 4	
Sundry Printing Sales		12 15 3
Advertisers' Prepayments, unexhausted		37 9 –
Copyright	2,000 – –	
Machinery and Plant, 1st April	9,000 – –	
Freehold Property	4,000 – –	
Office Furniture	120 – –	
Bank	3,630 8 –	
Revenue Surplus, 1st April		1,530 7 1
£7,000 Consols 2½% at cost	5,869 – 4	
Reserve Fund Account		400 – –
Discount allowed	103 11 1	
Paper, Ink, etc., Account	2,960 13 8	
Trade Expenses	170 6 10	
Wages	4,845 13 –	
Discount received		379 4 3
Bad Debts	90 17 6	
Interest on Consols (9 months received)		123 11 11
Advertisements in other papers	76 7 4	
Fuel, etc.	157 2 4	
Repairs	206 16 5	
Rent of Branches, Rates and Taxes	129 8 8	
Correspondence Fees	368 2 4	
Printing and Stationery	108 15 6	
New Plant bought 1st Oct.	400 – –	
Telephone	78 8 11	
Billposting and Carriage	225 16 9	
Insurance	48 10 –	
Postage and Telegrams	187 12 2	
Travelling Expenses	195 16 10	
Share Capital 4,660 £10 shares £5 called up		23,300 – –
Bank Interest		125 6 –
Creditors		850 – 10
Agents' Debit Balances	579 1 5	
Subscribers' „	38 4 4	
Advertisers' „	2,758 12 5	
Sales to Subscribers		84 1 7
Credit Balances		10 19 8
Subscribers' 10 £1 shares "Yellow Press Co., Ltd." no value	2 – –	
	£38,763 13 7	£38,763 13 7

Wages owing, £95 16s. 4d.
3 months' interest less Tax @ 1s. 2d. in £ due on Consols.
The Stocks at 31st March, are: Paper, Ink, etc., £324 10s.; Fuel, £3 10s.
Telephone £25 is prepaid.
Reserve £150 for estimated costs in Libel Action.
Reserve £50 for Bad Debts.
Depreciation on Plant 7½% per annum.
" on Furniture 5% per annum.
Provide 10% for allowances on Advertisers' debts.
Write down Consols to 79½%.
Provide Managers' commission 5% on year's profits before crediting any interest or charging loss on Investments.
Prepare Balance Sheet and Trading Account for year ending 31st March.
—(*West Riding of Yorkshire.*)

CHAPTER XVII

BRANCH ACCOUNTS, FOREIGN EXCHANGE, FOREIGN BRANCHES

Divisions of the Subject.—Branch Accounts are generally divided into three main classes:—

(1) Where the Branch book-keeping is done at the Head Office, the branch supplying the necessary information, or, as it is termed, making returns.

(2) Where the Branch keeps its own books, and at balancing time forwards a copy of its trial balance for incorporation in the Head Office books.

(3) Foreign branches.

Each of the first two classes is subdivided according as the Branch is retail or wholesale. Moreover, the kind of business itself exercises a not unimportant influence upon the method of book-keeping. In some trades the stock is of a perishable nature, in others it remains good indefinitely; obviously, therefore, it cannot be dealt with in the same way in both cases.

Transfer of Stock to Branches.—When a Branch is opened and stock is transferred to it from the head establishment, this transfer should not be treated as a sale; for it is not a proper sale, but merely an issue of goods. The value of the goods should be debited to a Branch Account, and credited to a special account entitled "Goods sent to Branches." At balancing time this latter account is closed by transfer to Trading Account.

Example.—On 1st Jan. a Branch establishment was opened and stock value £1,000 was transferred thereto. Show the Journal and Ledger entries recording this transaction.

JOURNAL.

		Dr.			Cr.		
19— Jan. 1	Branch A/c . . . . To Goods sent to Branches .	1,000	–	–	1,000	–	–

LEDGER.

Dr. BRANCH ACCOUNT. *Cr.*

19— Jan. 1	To Goods to Branches .	1,000	–	–					

Dr. GOODS SENT TO BRANCHES. *Cr.*

19— Dec. 31	To Trading A/c	1,000	–	–	19— Jan. 1	By Branch A/c	1,000	–	–

Dr. TRADING ACCOUNT. *Cr.*

| | | |

price, so as to facilitate the debiting of the respective branches therewith. The following is a specimen of such ruling :—

Date.	Particulars.	Total.		Branch A.		Branch B.	
		Cost Price.	Invoice Price.	Cost Price.	Invoice Price.	Cost Price.	Invoice Price.

Branch Receipts and Payments.—The money received by the Branch for the Cash Sales, and on Ledger Accounts where goods are also sold on credit, is either paid in daily at some local bank to the credit of the Head Office Account, or else remitted every day direct to Head Office. The expenses of the Branch, such as Rent, Rates and Taxes, Wages, Petty Charges, etc., are paid, in some cases, by cheque direct from the Head Office, and, in other cases, by means of the imprest system; whatever the branch spends for such purposes out of the original sum advanced to it, is repaid to the Branch by the Head Office. In a few instances, however, the Wages and Expenses are paid out of the cash takings, and only the balance remitted to the head establishment. The Cash Book kept by the Head Office generally contains extra columns on each side to record the receipts from, and payments to, the various branches, the totals of these columns being posted periodically to the Branch Accounts. The Branch itself is provided with a small Cash Book for the purpose of recording its daily takings and any petty disbursements.

Branch Returns.—In most cases the Branch is called upon by the Head Office to make what are termed "Returns." Where the Branch sales are exclusively cash, the Branch would simply make returns of—

(1) its daily takings, with a departmental analysis of such cash sales if necessary;

(2) its wages and other expenses, likewise dissected if desired;

(3) any commission that had accrued to the assistants or manager; and

(4) such statistical information respecting its present stock and future requirements as the Head Office desired.

But where the sales are partly cash and partly credit, additional particulars have to be furnished, *i.e.*, in connection with the debtors :—

(5) what accounts have been settled since the last return;

(6) the cash received, the discounts, returns, and allowances in connection with such settlements;

(7) what debts have become doubtful or bad;

(8) particulars of the credit sales since the last return;

(9) the debtors outstanding at the date of the current return.

The Branch itself usually keeps a small Ledger for the Debtors' Accounts. From the information thus furnished by each Branch, the Head Office is enabled to write up the various Branch Accounts.

I. (a) RETAIL BRANCHES

Example 1.—From the following particulars prepare the Branch Account as it would appear in the Head Office books. The Branch sales are for cash only, and the goods sent to the Branch have been invoiced at cost price:—

	£	s.	d.
Goods from Head Office	5,360	11	2
Returns to Head Office	47	7	11
Rates, Taxes, and Insurance paid	75	12	5
Wages paid	365	4	8
Cash remitted to Head Office	6,650	14	8
Stock, 1st Jan.	750	10	6
Rent paid	130	10	6
Stock, 31st Dec.	790	16	6
Sundry Expenses paid	80	13	9

Dr. BRANCH ACCOUNT. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan. 1	To Balance	750	10	6	Dec. 31	By Cash	6,650	14	8
Dec. 31	„ Goods from Head Office	5,360	11	2	„	„ Returns to Head Office	47	7	11
„	„ Cash (Wages)	365	4	8	„	„ Stock c/d	790	16	6
„	„ Cash (Rent)	130	10	6					
„	„ Cash (Rates, Taxes, and Insurance)	75	12	5					
„	„ Cash (Sundry Expenses)	80	13	9					
„	„ Profit and Loss A/c (profit)	725	16	1					
		7,488	19	1			7,488	19	1
19— Jan. 1	To Balance b/d	790	16	6					

Percentage Added to Cost Price.—Whenever goods are invoiced to the Branch at a percentage on cost price, this percentage must be taken into account at balancing time; that is to say, the Branch purchases, and opening and closing stocks, must be reduced to cost in order to arrive at the correct profit. In an office, the cost can be easily ascertained by reference to the Cost Price column in the Branch Supplies Book; but, in exercises and examination work, the cost must be found by arithmetical calculation. The student must remember that, if a percentage has been added to the cost of goods, the *same* percentage taken off will not reduce the goods to their original value. For example, suppose that £600 worth of goods

has been sent to a Branch with $33\frac{1}{3}$ per cent. added to the cost; the goods would then have been invoiced to the Branch at £800. Now, $33\frac{1}{3}$ per cent. taken off £800 will not reduce it to its original figure of £600. We must reason thus: On every £$133\frac{1}{3}$, £$33\frac{1}{3}$ has been added; the increase is, therefore, $\frac{33\frac{1}{3}}{133\frac{1}{3}}$ or $\frac{1}{4}$th; and one-fourth must consequently be taken off in order to bring the amount down to cost. In the following example (2), the goods received from Head Office, and also the stocks at the commencement and end of the trading period, have been decreased by one-fourth before being dealt with.

Example 2.—From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The Branch sales are exclusively cash; and the goods sent to the Branch have been invoiced at $33\frac{1}{3}$ per cent. on cost:—

	£	s.	d.
Goods sent to Branch *less* Returns	7,200	15	4
Wages and Salaries paid	380	12	9
Cash remitted by Branch	7,068	15	6
Stock, 1st Jan.	900	12	8
Rates, Taxes, and Insurance paid	85	3	11
Rent paid	150	10	6
Stock, 31st Dec.	1,020	18	4
Sundry Expenses paid	42	11	7

Dr. BRANCH ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance (Stock)	675	9	6	Dec. 31	By Cash	7,068	15	6
Dec. 31	„ Goods from Head Office	5,400	11	6	„	„ Stock c/d	765	13	9
„	„ Cash (Rates, Taxes, and Insurance)	85	3	11					
„	„ Wages and Salaries	380	12	9					
„	„ Rent	150	10	6					
„	„ Sundry Expenses	42	11	7					
„	„ Profit and Loss (net profit)	1,099	9	6					
		7,834	9	3			7,834	9	3
19—									
Jan. 1	To Balance (Stock) b/d	765	13	9					

Branch Accounts with Double Money Columns.—Where the Ledger accounts contain double columns, one to record the invoice price, and the other the cost price, such columns possess the great advantage of showing clearly and at a glance both the nominal and the actual gross profits. The percentage added to the cost price, when invoicing goods to the Branch, is usually the estimated or expected rate of gross profit on cost. And when the Branch Trading Account is made up at the actual invoice figures, both sides should, theoretically, agree. A balance, if any, indicates that more, or less, than the anticipated gross profit is being made. In the following example, which is a re-working of Example 2, but with double columns, the actual gross profit is short of what it ought to be by the

Dr. BRANCH ACCOUNT *Cr.*

19—		Invoice Price.						19—		Invoice Price.					
Jan. 1	To Balance (Stock) .	900	12	8	675	9	6	Jan.-Dec.	By Cash . . .	7,068	15	6	7,068	15	6
Jan.-Dec.	,, Goods from Head Office . . .	7,200	15	4	5,400	11	6	Dec. 31	,, Stock c/d . .	1,020	18	4	765	13	9
Dec. 31	,, Balance (gross profit)				1,758	8	3		,, Balance (apparent loss) . . .	11	14	2			
		8,101	8	–	7,834	9	3			8,101	8	–	7,834	9	3
Dec. 31	To Rates, Taxes, and Insurance . .				85	3	11	Dec. 31	By Gross Profit . .				1,758	8	3
,,	,, Wages and Salaries .				380	12	9								
,,	,, Rent . . .				150	10	6								
,,	,, Sundry Expenses .				42	11	7								
,,	,, Profit and Loss A/c (net profit) . .				1,099	9	6								
					1,758	8	3						1,758	8	3
19—															
Jan. 1	To Balance (Stock) .	1,020	18	4	765	13	9								

sum of £11 14s. 2d. This fact would, in practice, lead to a search for a probable error, and possibly to an investigation as to whether the figures relating to the goods or money were being manipulated.

Branch Adjustment Account.—Instead of employing double columns to bring both sets of figures into account, the goods sent to the Branch are sometimes posted to the Ledger at the invoice price only. It then becomes necessary to open a "Branch Adjustment Account" in addition to a "Goods sent to Branches Account," if we wish by means of proper double entry to ascertain the actual trading profit. This method, applied to the foregoing example, No. 2, would give us the following Ledger accounts:—

Dr. BRANCH ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance (Stock) *a*	900	12	8	Jan.-Dec.	By Cash remitted .	7,068	15	6
Jan.-Dec.	„ Purchases from Head Office *d*	7,200	15	4	Dec. 31	„ Stock c/d . *b*	1,020	18	4
					Dec. 31	„ Branch Adjustment A/c (apparent loss) . . *c*	11	14	2
		8,101	8	—			8,101	8	—
19—									
Jan. 1	To Balance (Stock) b/d . . *e*	1,020	18	4					

Dr. BRANCH ADJUSTMENT ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Balance (% on Stock) c/d . *b*	255	4	7	Jan. 1	By Balance (% on Stock) . *a*	225	3	2
„	„ Branch A/c (apparent loss) . *c*	11	14	2	Jan.-Dec.	„ Goods to Branches A/c (% on Goods) *d*	1,800	3	10
„	„ Branch Profit and Loss A/c (gross profit) . . .	1,758	8	3					
		2,025	7	—			2,025	7	—
					19—				
					Jan. 1	By Balance b/d . *e*	255	4	7

Dr. GOODS SENT TO BRANCHES ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Branch Adjustment A/c . . *d*	1,800	3	10	Jan.-Dec.	By Branch A/c . .	7,200	15	4
„	„ Transfer to Trading A/c (Goods at cost) . . .	5,400	11	6					
		7,200	15	4			7,200	15	4

The credit balance of £255 4s. 7d. in the Branch Adjustment Account would be set off against the debit balance of £1,020 18s. 4d. in the Branch Account, thus enabling the Branch Stock to be entered in the Stock Account and in the Balance Sheet at cost, namely, £765 13s. 9d. The Branch Adjustment Account shows a gross profit of £1,758 8s. 3d., which amount would be taken to a Branch Profit and Loss Account. Against this gross profit would be debited

the total of the Branch expenses, viz., £658 18s. 9d. This would leave a net profit of £1,099 9s. 6d. to be carried to the general Profit and Loss Account—the same result as by the previous method.

Credit Sales by Branches.—These are treated in different ways. Where the transactions are not very large or numerous, everything is passed through one Branch Account, the Debtors being treated in the same way as Stock at the commencement and close of the trading period. In some cases, however, a separate "Branch Debtors Account" is opened in addition to a "Branch Account.' Where the turnover is sufficiently large to warrant it, the Branch Account itself is often divided into two parts, a "Branch Goods Account" and a "Branch Expenses Account," so as to show both gross and net profits.

Example 3.—From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the Branch have been invoiced at cost, and the Branch makes both cash and credit sales:—

	£	s.	d.
Goods received from Head Office	2,540	12	9
Returns to Head Office	40	3	7
Stock, 1st Jan.	750	11	8
Ready-money Sales	1,675	19	2
Six Months' Credit Sales to 30th June	2,995	10	11
Allowances to Customers	16	11	8
Discounts allowed to Customers	120	18	5
Bad Debts	29	3	11
Rent, Rates, and Taxes	90	7	8
Returns from Customers	28	12	4
Wages and Salaries	297	15	6
Debtors, 1st Jan.	1,310	12	5
Stock, 30th June	695	6	6
Sundry Expenses	65	10	9
Cash received on Ledger Accounts	2,459	10	6
Debtors, 30th June	1,651	6	6

The simplest form would be the following, which is constructed on a *cash* basis, the Debtors being treated like a Stock Account:—

Dr. BRANCH ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance—				Jan.-June	By Cash—			
	Stock £750 11 8					Ledger A/cs	2,459	10	6
	Debtors 1,310 12 5					Ready-money Sales	1,675	19	2
		2,061	4	1					
June 30	„ Goods from Head Office	2,540	12	9	„	„ Returns to Head Office	40	3	7
„	„ Rent, Rates, and Taxes	90	7	8	June 30	„ Balance c/d—			
„	„ Wages and Salaries	297	15	6		Stock £695 6 6			
„	„ Sundry Expenses	65	10	9		Debtors 1,651 6 6			
„	„ Profit and Loss A/c (net profit)	1,466	15	6			2,346	13	–
		6,522	6	3			6,522	6	3
July 1	To Balance b/d	2,346	13	–					

A more elaborate form would be as follows:—

Dr. BRANCH GOODS ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Jan. 1	To Balance	750	11	8	June 30	By Cash Sales	1,675	19	2
Jan.-June	„ Goods from Head Office	2,540	12	9	„	„ Credit Sales	2,995	10	11
„	„ Returns Inwards	28	12	4	„	„ Returns to Head Office	40	3	7
„	„ Allowances	16	11	8	„	„ Stock c/d	695	6	6
„	„ Branch Profit and Loss A/c (gross profit)	2,070	11	9					
		5,407	—	2			5,407	—	2
July 1	To Balance (Stock) b/d	695	6	6					

Dr. BRANCH EXPENSES ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
June 30	To Rent, Rates, etc.	90	7	8	June 30	By Transfer to Branch Profit and Loss A/c	603	16	3
„	„ Wages and Salaries	297	15	6					
„	„ Sundry Expenses	65	10	9					
„	„ Bad Debts	29	3	11					
„	„ Discounts	120	18	5					
		603	16	3			603	16	3

Dr. BRANCH DEBTORS ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Jan. 1	To Balance	1,310	12	5	Jan.-June	By Cash	2,459	10	6
Jan.-June	„ Credit Sales	2,995	10	11	„	„ Discount	120	18	5
					„	„ Returns Inwards	28	12	4
					„	„ Allowances	16	11	8
					„	„ Bad Debts	29	3	11
					„	„ Balance c/d	1,651	6	6
		4,306	3	4			4,306	3	4
July 1	To Balance b/d	1,651	6	6					

Dr. BRANCH PROFIT AND LOSS ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
June 30	To Branch Expenses A/c	603	16	3	June 30	By Branch Goods A/c (gross profit)	2,070	11	9
„	„ Head Office Profit and Loss A/c (net profit)	1,466	15	6					
		2,070	11	9			2,070	11	9

Depreciation of Assets.—Where a Branch possesses fixed assets such as Furniture, Fixtures, and Fittings, the depreciation is often dealt with in the Head Office Depreciation Account only, as is implied in the previous examples. In some cases, however, it is charged against each particular Branch, as in the following examples.

Example 4.—From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The branches are charged with the goods at selling price, the sales

being exclusively cash. The rate of gross profit is 25 per cent. on selling price.

	Branch A.			Branch B.		
	£	s.	d.	£	s.	d.
Goods from Head Office	10,145	11	8	10,216	12	4
Returns to Head Office	48	2	4	46	10	8
Sales by Branch	9,626	11	4	9,818	–	8
Stock, 1st Jan.	1,275	10	4	1,684	11	4
Stock, 31st Dec.	1,726	17	8	1,986	15	4
Allowances off Selling Price	29	2	–	39	14	4
Sundry Expenses	95	11	6	120	19	5
Salaries and Wages	237	3	8	316	11	9
Depreciation of Furniture and Fixtures	22	13	7	24	18	6
Rent, Rates, and Taxes	260	10	2	284	12	8
Excess in Stock at close	9	11	4			
Shortage in Stock at close				10	2	8

Notes on Example.—The selling price of goods is often subject to variation, according to the quantity taken. For instance, articles retailed at a 1d. each may be sold at 9d. a dozen and 7s. 6d. a gross, and so on. A record is kept of these allowances off selling price, and the total is written off at the end of the period. Again, it occasionally happens that at stock-taking the stock is different from what it ought to be, being sometimes more, and sometimes less. These discrepancies must, of course, be adjusted at balancing time.

Dr. BRANCH "A" EXPENSES ACCOUNT. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Salaries and Wages	237	3	8	Dec. 31	By Transfer to Branch Profit and Loss A/c	615	18	11
"	" Rent, Rates and Taxes	260	10	2					
"	" Sundry Expenses	95	11	6					
"	" Depreciation of Fixtures, etc.	22	13	7					
		615	18	11			615	18	11

Dr. BRANCH "B" EXPENSES ACCOUNT. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Dec. 31	To Salaries and Wages	316	11	9	Dec. 31	By Transfer to Branch Profit and Loss A/c	747	2	4
"	" Rent, Rates, and Taxes	284	12	8					
"	" Sundry Expenses	120	19	5					
"	" Depreciation of Fixtures	24	18	6					
		747	2	4			747	2	4

Dr. GOODS TO BRANCHES. *Cr.*

19—		£	s.	d.	19—		£	s.	d.
Jan.-Dec.	To Branch "A" Returns	36	1	9	Jan.-Dec.	By Branch "A"	7,609	3	9
"	" Branch "B" Returns	34	18	–	"	" Branch "B"	7,662	9	3
Dec. 31	" Trading A/c	15,200	13	3					
		15,271	13	–			15,271	13	–

Dr. BRANCH "A" ACCOUNT. *Cr.*

19—		Invoice Price.						19—		Invoice Price.					
Jan. 1	To Balance (Stock) .	1,275	10	4	956	12	9	Jan.-Dec.	By Cash . . .	9,626	11	4	9,626	11	4
Jan.-Dec.	„ Goods to Branches .	10,145	11	8	7,609	3	9		„ „ Returns to Head Office	48	2	4	36	1	9
Dec. 31	„ Excess in Stock .	9	11	4					„ „ Allowances off Selling Prices . . .	29	2	–			
„	„ Branch Profit and Loss A/c (gross profit)				2,391	19	10	Dec. 31	„ Balance (Stock) c/d .	1,726	17	8	1,295	3	3
		11,430	13	4	10,957	16	4			11,430	13	4	10,957	16	4
19—															
Jan. 1	To Balance (Stock) .	1,726	17	8	1,295	3	3								

Dr BRANCH "B" ACCOUNT. *Cr.*

19—		Invoice Price.						19—		Invoice Price.					
Jan. 1	To Balance (Stock) .	1,684	11	4	1,263	8	6	Dec. 31	By Cash . . .	9,818	–	8	9,818	–	8
Jan.-Dec.	„ Goods to Branches .	10,216	12	4	7,662	9	3		„ „ Returns to Head Office	46	10	8	34	18	–
„	„ Branch Profit and Loss A/c (gross profit) .				2,417	2	5		„ „ Allowances off Selling Price . . .	39	14	4			
									„ „ Shortage in Stock .	10	2	8			
									„ „ Balance (Stock) c/d .	1,986	15	4	1,490	1	6
		11,901	3	8	11,343	–	2			11,901	3	8	11,343	–	2
19—															
Jan. 1	To Balance (Stock) .	1,986	15	4	1,490	1	6								

BRANCH PROFIT AND LOSS ACCOUNT.

19—		Branch "A."			Branch "B."			19—		Branch "A."			Branch "B."		
Dec. 31	To Branch Expenses	615	18	11	747	2	4	Dec. 31	By Branch A/cs (Gross Profit)	2,391	19	10	2,417	2	5
" "	" Head Office Profit and Loss A/c (Net Profit)	1,776	—	11	1,670	—	1								
		2,391	19	10	2,417	2	5			2,391	19	10	2,417	2	5

Monthly Stock Accounts.—Where goods are charged out to branches at selling price, or at a fixed percentage on cost, there is, of course, an adequate check on the stock; but where goods are invoiced at cost, there is no such check. In order to provide one, Approximate (or Estimated) Stock Accounts are prepared monthly, and recorded in a book kept specially for this purpose. These accounts enable the proprietor or directors to know at any time the value of the stock on hand at least approximately, without going through the long and tedious process of stock-taking. Where the rate of gross profit is a fixed percentage of the selling price, a fairly accurate result may be obtained by adding to the stock at the commencement the subsequent net purchases, and deducting from the total the net sales for the same period, after reducing them by the said percentage of gross profit.

Example :—

Dr. APPROXIMATE STOCK ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Stock	2,850	—	—	Jan. 31	By Sales (less Returns)	1,060	—	—
31	" Purchases (less Returns)	550	—	—		Less (say) 25%	265	—	—
							795	—	—
					"	" Balance (estimated Stock) c/d	2,605	—	—
		3,400	—	—			3,400	—	—
Feb. 1	To Balance b/d	2,605	—	—					

I. (b) WHOLESALE BRANCHES.

Method of Keeping the Accounts.—In wholesale branches where the volume of trade is very much greater, and the transactions large and important in themselves, the accounts are kept in a manner somewhat similar to Departmental Accounts. Separate Stock, Purchases, Sales, and Returns Accounts are opened for each branch, thus, Branch "A" Stock Account, Branch "B" Stock Account; Branch "A" Purchases Account, Branch "B" Purchases Account; Branch "A" Sales Account, Branch "B" Sales

Account, etc. Expense accounts are kept for each branch; *e.g.*, Branch "A" Wages, Branch "B" Wages; Branch "A" Rent, Rates and Taxes, Branch "B" Rent, Rates, and Taxes; and so on. Separate Ledgers also are kept for each branch. For example, Branch "A" Debtors Ledger would contain the personal accounts of Branch "A" customers. Branch "A" General Ledger would record the Branch asset accounts, such as Horses and Carts, Fixtures and Fittings, and also the nominal accounts, such as Rent, Rates and Taxes, Wages, Discounts, Bad Debts, etc.

How the Buying is Done.—The Head Office generally does all the buying, and hence keeps the creditors' accounts in its own books, merely distributing the goods to its branches for sale. Sometimes, however, the branches are permitted to order, from outside, any goods they may require, the goods being sent direct to the Branch but invoiced to the Head Office.

How Goods sold are Invoiced.—When invoicing goods to customers, branches make out the invoice in triplicate; one copy is forwarded to the customer, one to the Head Office, and one retained by the branch for reference.

Example 5.—From the undermentioned particulars relating to a Head Office and its two wholesale Branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books:

	Head Office.			Northern Branch.			Southern Branch.		
	£	s.	d.	£	s.	d.	£	s.	d.
Stock, 1st Jan.	—			4,825	15	6	4,126	17	8
Debtors	—			17,346	10	2	14,986	10	9
Creditors	8,347	17	5	—			—		
Discounts Earned	—			527	11	4	408	16	5
Bad Debts	—			633	6	8	524	19	2
Bills Payable	2,694	13	5	—			—		
Purchases *less* Returns	—			11,876	14	4	9,756	12	10
Furniture, Fixtures, and Fittings	120	16	4	310	18	7	239	16	9
Horses, Harness, Vehicles, etc.	—			1,972	16	4	1,568	12	7
Salaries	985	14	6	—			—		
Cash at Bank	8,906	2	1	—			—		
Share Capital (24,000 Shares of £1 each, fully paid)	24,000	–	–	—			—		
Travellers' Salaries and Expenses	—			3,108	5	11	2,006	4	2
Directors' Fees	500	–	–	—			—		
Sales *less* Returns	—			27,659	16	11	22,914	17	5
Wages	—			2,397	15	2	1,716	11	8
Interim Dividend 8 %	1,920	–	–	—			—		
Stock, 31st Dec.	—			5,802	18	6	4,950	14	8
Debenture Interest	425	–	–	—			—		
Reserve Fund Account	7,500	–	–	—			—		
Discounts Allowed	—			1,646	18	3	1,542	9	6
5% Debentures	8,500	–	–	—			—		
Carriage Inwards	—			510	9	3	458	13	2
Depreciation	13	8	5	234	10	11	186	13	–
Sundry Expenses	—			3,067	2	10	3,010	19	6
Rent, Rates, and Taxes	245	10	8	357	9	6	298	10	4
Horse and Stable Expenses	—			327	11	4	256	1	10
Cash in hand	21	9	6	68	15	3	50	18	5
Reserve for Bad Debts, 5% Debtors.									

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

	Northern Branch.	Southern Branch.	Total.		Northern Branch.	Southern Branch.	Total.
To Stock, 1st Jan.	4,825 15 6	4,126 17 8	8,952 13 2	By Sales (net)	27,659 16 11	22,914 17 5	50,574 14 4
„ Purchases (net)	11,876 14 4	9,756 12 10	21,633 7 2	„ Stock, 31st Dec.	5,802 18 6	4,950 14 8	10,753 13 2
„ Carriage Inwards	510 9 3	458 13 2	969 2 5				
„ Wages	2,397 15 2	1,716 11 8	4,114 6 10				
„ Balance (Gross Profit) c/d	13,852 1 2	11,806 16 9	25,658 17 11				
	33,462 15 5	27,865 12 1	61,328 7 6		33,462 15 5	27,865 12 1	61,328 7 6
To Discounts Allowed	1,646 18 3	1,542 9 6	3,189 7 9	„ Balance (Gross Profit) b/d	13,852 1 2	11,806 16 9	25,658 17 11
„ Bad Debts	633 6 8	524 19 2	1,158 5 10	„ Discounts Earned	527 11 4	408 16 5	936 7 9
„ Rent, Rates, and Taxes	357 9 6	298 10 4	655 19 10				
„ Travellers' Salaries and Expenses	3,108 5 11	2,006 4 2	5,114 10 1				
„ Sundry Expenses	3,067 2 10	3,010 19 6	6,078 2 4				
„ Horse and Stable Expenses	327 11 4	256 1 10	583 13 2				
„ Depreciation	234 10 11	186 13 –	421 3 11				
„ Bad Debts Reserve	867 6 6	749 6 6	1,616 13 –				
Balance (net profit)	4,137 – 7	3,640 9 2	7,777 9 9				
	14,379 12 6	12,215 13 2	26,595 5 8		14,379 12 6	12,215 13 2	26,595 5 8

GENERAL PROFIT AND LOSS ACCOUNT.

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

To Rent, Rates, and Taxes				245	10	8	By Branch Profits—					
„ Salaries				985	14	6	Northern Branch	4,137	–	7		
„ Directors' Fees				500	–	–	Southern Branch	3,640	9	2		
„ Debenture Interest				425	–	–					7,777	9 9
„ Depreciation				13	8	6						
„ Balance (net profit for year)				5,607	16	1						
				7,777	9	9					7,777	9 9

BALANCE SHEET.

AS AT 31ST DEC., 19—

Capital and Liabilities.							*Property and Assets.*					
Share Capital—							Horses, Harness, Vehicles, etc., less depreciation				3,541	8 11
24,000 Shares of £1 each, fully paid				24,000	–	–	Furniture, Fixtures, & Fittings, less depreciation				671	11 8
5% Debentures				8,500	–	–	Stock-in-Trade				10,753	13 2
Reserve Fund A/c				7,500	–	–	Sundry Debtors	32,333	–	11		
Sundry Creditors				8,347	17	5	*Less* Bad Debts Reserve	1,616	13	–	30,716	7 11
Bills Payable				2,694	13	5						
Profit and Loss A/c—												
Profit for Year	5,607	16	1									
Less Interim Dividend	1,920	–	–									
				3,687	16	1	Cash in hand	141	3	2		
							Cash at Bank	8,906	2	1		
											9,047	5 3
				54,730	6	11					54,730	6 11

Where the head establishment is a manufacturing concern, *e.g.* a factory which invoices the goods to its branches at a profit, there would be an extra column in the Trading Account, in order to show the trading profit of the factory as well as the trading profits of the branches.

II. BOOKS KEPT BY THE BRANCHES.

Where the branches are semi-independent trading establishments, they generally do their own book-keeping, and at the end of the financial period, forward a copy of their Trial Balance for the trading results to be incorporated in the Head Office books.

Head Office Account.—Inasmuch as the Head Office finances the Branch and supplies it with the greater part of its goods, there is a constant state of indebtedness on the part of the Branch to the Head Office. The position is almost that of ordinary debtor and creditor, and is evidenced in the Head Office books by the *debit* balance of the Branch Account, and in the Branch books by the *credit* balance of the Head Office Account. In the Branch books,

the Head Office Account takes the place of the Capital Account in an ordinary trader's books. Should a Branch have opening entries to record in its ledger, the excess of assets over liabilities would not be shown as Capital, but as a debt due to the Head Office. The "Head Office Account" is known by various names; sometimes it is called the "Head Office Current Account," and sometimes the "Head Office Adjustment Account"; while the "Branch Account" in the Head Office books is also called the "Branch Current Account" or the "Branch Adjustment Account."

Remittance Account.—To reduce the amount of its indebtedness, the Branch remits, at intervals, a round sum of money to the Head Office. This money is sometimes credited direct to the Branch Account, and sometimes put to the credit of an intermediate Remittance Account. Much depends on how frequently the Branch remits. Where remittances are made in moderate sums, and are, therefore, fairly numerous, a separate Remittance Account is of great advantage, as it keeps unnecessary details out of the Branch Account, thus simplifying it and making it very much clearer. At balancing time, however, the total of the Remittance Account must be transferred to the credit of the Branch Account, so as to show the correct amount the Branch owes to the Head Office at that date. In the Branch books, the Remittance Account is designated "Remittances to Head Office," the counterpart of this account in the Head Office books being styled "Remittances from Branch."

Goods and Remittances in Transit.—It frequently happens at balancing time that the Branch Account, and also the Remittance Account, as shown by the Branch Trial Balance, do not correspond with their respective amounts as shown by the Head Office Trial Balance. This arises where the Branch has forwarded a remittance to the Head Office on the last day of the trading period. The Branch, of course, has debited its Remittance Account with it; but the Head Office, not having received it until the first day of the new trading period, has not credited its Remittance Account. It also occurs whenever the Head Office has forwarded goods to the Branch on the last day of the trading period, and has debited the Branch Account. The Branch, however, has not credited the Head Office, because it did not receive the goods on that date.

Before attempting the final entries, the balances of the Current Accounts and the Remittance Accounts must be made to agree. The amount of the goods received by the Branch, after the close of the trading period, must be deducted from the Branch Account in the Head Office books and put to a Goods in Transit Account. The value of the remittance received by the Head Office, after the close of the trading period, must likewise be deducted from the

Remittance Account in the Branch Books and placed to a Remittance in Transit Account. The adjustments will be effected by means of Journal entries, and the transit items will then appear on the Balance Sheet. In the ensuing period the adjustments will be written back, *i.e.*, fresh Journal entries will be made reversing the previous ones, thus closing the transit accounts.

Example.—(For the sake of clearness, Trading and Profit and Loss Account items have been omitted and the other items summarised.)

HEAD OFFICE TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current Account. (£250 of this is for goods sent on 31st Dec.)	2,916	13	2			
Remittances from Branch				1,459	10	6
	15,538	8	11	15,538	8	11

BRANCH TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Sundry Assets	1,457	2	4			
Sundry Creditors				369	19	8
Head Office Current Account				2,666	13	2
Remittances to Head Office (£120 of this represents a remittance made on the 31st Dec.)	1,579	10	6			
	3,036	12	10	3,036	12	10

The effect of the adjustments is as follows :—

HEAD OFFICE TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Sundry Assets	12,621	15	9			
Capital				10,950	–	–
Sundry Creditors				3,128	18	5
Branch Current Account	2,666	13	2			
Goods in Transit to Branch	250	–	–			
Remittances from Branch				1,459	10	6
	15,538	8	11	15,538	8	11

BRANCH TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Sundry Assets	1,457	2	4			
Sundry Creditors				369	19	8
Head Office Current Account				2,666	13	2
Remittances to Head Office	1,459	10	6			
Remittance in Transit to Head Office	120	–	–			
	3,036	12	10	3,036	12	10

Eliminating the contra Current and Remittance Accounts, the Head Office Balance Sheet would be as under:—

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities.				*Assets.*			
Capital	10,950	–	–	Sundry Assets	14,078	18	1
Sundry Creditors	3,498	18	1	Goods in transit to Branch	250	–	–
				Remittance in transit from Branch	120	–	–
	14,448	18	1		14,448	18	1

Example 6.—From the following Trial Balance of the Branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch Ledger and also in the Head Office Ledger.

BRANCH TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Horses and Carts	275	11	8			
Furniture and Fixtures	72	14	3			
Sundry Debtors	1,075	15	3			
Sundry Creditors				211	14	9
Stock, 1st Jan.	750	19	2			
Purchases from Head Office	2,856	4	11			
Sales				3,975	18	10
Discounts Received				19	11	8
Rent, Rates and Taxes	93	1	4			
Sundry Expenses	65	9	10			
Depreciation	34	2	7			
Head Office Account, 1st Jan.				3,385	19	2
Cash in hand	127	14	6			
Carriage Inwards	82	13	6			
Wages and Salaries	369	10	7			
Bad Debts	32	15	8			
Remittances to Head Office	1,680	–	–			
Discounts Allowed	76	11	2			
	7,593	4	5	7,593	4	5

Stock, 31st Oct., £825 15s. 4d.

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		Dr.			Cr.		
19— Dec. 31	Remittances from Branch . To Branch Account . . Balance transferred.	1,680	–	–	1,680	–	–
31	Branch Trading Account . To Branch Account . . Stock, 1st Jan. £750 19 2 Purchases . 2,856 4 11 Carriage Inwards 82 13 6 Balances transferred.	3,689	17	7	3,689	17	7
31	Branch Account . . . To Branch Trading Account Sales . . £3,975 18 10 Stock, 31st Dec. 825 15 4 Balances transferred.	4,801	14	2	4,801	14	2
31	Branch Trading Account . Branch Account . . . To Branch Profit and Loss Account . . . . Gross Profit and Discounts Received transferred.	1,111 19	16 11	7 8	1,131	8	3
31	Branch Profit and Loss Account To Branch Account . . Wages and Salaries £369 10 7 Rent, Rates & Taxes 93 1 4 Discounts Allowed 76 11 2 Sundry Expenses 65 9 10 Bad Debts . 32 15 8 Depreciation . 34 2 7 Balances transferred.	671	11	2	671	11	2
31	Branch Profit and Loss Account To Head Office Profit and Loss Account . . . Net profit of Branch transferred.	459	17	1	459	17	1

In Head Office Ledger.

REMITTANCES FROM BRANCH.

Dr.						Cr.				
19— Dec. 31	To Branch A/c . .	1,680	–	–	19— Jan.-Dec.	By Cash	1,680	–	–

BRANCH ACCOUNT.

Dr.						Cr.				
19—					19—					
Jan. 1	To Balance . . .	3,385	19	2	Dec. 31	By Remittances from Branch . . .	1,680	–	–
Dec. 31	„ Branch Trading A/c	4,801	14	2	„	„ Branch Trading A/c	3,689	17	7
„	„ Branch Profit and Loss A/c . .	19	11	8	„	„ Branch Profit and Loss A/c . .	671	11	2
					„	„ Balance c/d . .	2,165	16	3
		8,207	5	–			8,207	5	–
19—									
Jan. 1	To Balance b/d . .	2,165	16	3					

BRANCH TRADING ACCOUNT.

Dr.						Cr.				
19—					19—					
Dec. 31	To Branch A/c—				Dec. 31	By Branch A/c—				
	Stock . . .	750	19	2		Sales . . .	3,975	18	10
	Purchases . .	2,856	4	11		Stock . . .	825	15	4
	Carriage In . .	82	13	6					
	„ Branch Profit and Loss A/c (gross profit) . . .	1,111	16	7					
		4,801	14	2			4,801	14	2

BRANCH PROFIT AND LOSS ACCOUNT.

Dr.						Cr.				
19—					19—					
Dec. 31	To Branch A/c—				Dec. 31	By Branch Trading A/c (gross profit) . .	1,111	16	7
	Wages and Salaries	369	10	7					
	Rent, Rates, and Taxes . . .	93	1	4	„	„ Branch A/c— Discounts Received	19	11	8
	Discounts Allowed.	76	11	2					
	Sundry Expenses .	65	9	10					
	Bad Debts . .	32	15	8					
	Depreciation . .	34	2	7					
	„ Head Office Profit and Loss A/c (net profit) . . .	459	17	1					
		1,131	8	3			1,131	8	3

In Branch Ledger.

REMITTANCES TO HEAD OFFICE.

Dr.						Cr.				
19—					19—					
Jan.-Dec.	To Cash	1,680	–	–	Dec. 31	By Transfer to Head Office A/c . .	1,680	–	–

HEAD OFFICE ACCOUNT.

Dr.						Cr.				
19—					19—					
Dec. 31	To Transfer from Remittance A/c .	1,680	–	–	Jan. 1	By Balance . . .	3,385	19	2
„	„ Balance c/d . .	2,165	16	3	Dec. 31	„ Profit and Loss A/c (net profit) . .	459	17	1
		3,845	16	3			3,845	16	3
					19—				
					Jan. 1	By Balance b/d . .	2,165	16	3

TRADING AND PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DEC., 19— *Cr.*

To Stock, 1st Jan.	750	19	2	By Sales	3,975	18	10
„ Purchases from Head Office	2,856	4	11	„ Stock, 31st Dec.	825	15	4
„ Carriage Inwards	82	13	6				
„ Balance (gross profit)	1,111	16	7				
	4,801	14	2		4,801	14	2
To Wages and Salaries	369	10	7	By Gross Profit b/d	1,111	16	7
„ Rent, Rates, and Taxes	93	1	4	„ Discounts Received	19	11	8
„ Sundry Expenses	65	9	10				
„ Bad Debts	32	15	8				
„ Discounts Allowed	76	11	2				
„ Depreciation	34	2	7				
„ Head Office A/c (net profit transferred)	459	17	1				
	1,131	8	3		1,131	8	3

BALANCE SHEET

AS AT 31ST DEC., 19—

Liabilities.				*Assets.*			
Sundry Creditors	211	14	9	Cash	127	14	6
Head Office Account—				Sundry Debtors	1,075	15	3
Balance, 1st Jan. £3,385 19 2				Stock	825	15	4
Less Remittances 1,680 0 0				Horses and Carts (*less* depreciation)	275	11	8
1,705 19 2				Furniture and Fixtures (*less* depreciation)	72	14	3
Add Profit 459 17 1							
	2,165	16	3				
	2,377	11	-		2,377	11	-

The foregoing method would apply to both retail and wholesale branches, the principal difference between the two being that, in the latter, the trade would assume much larger proportions, and the turnover might run into tens and hundreds of thousands, with the figures for other items correspondingly large.

Inter-Branch Transactions.—Where there are several branches, each permitted to have credit dealings with the others, they will keep a Current Account with one another as well as with the Head Office. At balancing time the balances of these Current Accounts will be liabilities and assets of the branches, as between themselves, but not liabilities of the business as a whole. When the General Balance Sheet is prepared in tabular or columnar form, they must be shown in their proper columns, in order to make the vertical totals agree. A columnar Balance Sheet, however, is only for the benefit of the business, and when the General Balance Sheet is framed, the balances of the Head Office Current Accounts, the Branch Current Accounts, and the inter-Branch Current Accounts, being contras, can easily be eliminated.

Example 7.—Three partners, B. Brown, J. Jones, and S. Smith, have branch businesses working independently in London, Birmingham, and Dundee. Brown manages the London business, and receives two-thirds of the profits therefrom, the balance being shared equally between Jones and Smith. Jones manages the Birmingham business, receiving half of the profits therefrom, the balance being shared equally between Brown and Smith. Smith manages the Dundee business, receiving one-third of the profits therefrom, the balance being shared equally between Brown and Jones. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balances draw up a tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent. per annum, and depreciate Plant and Machinery at the rate of 10 per cent. per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts, in the respective Branch Ledgers.

LONDON TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Plant and Machinery	5,408	6	4			
Cash in hand	178	3	9			
Cash at Bank	7,157	12	2			
Current Accounts—						
Birmingham	2,029	16	7			
Dundee	1,970	18	6			
Stock, 1st Jan.	5,896	12	5			
Sundry Debtors	11,392	–	9			
Sundry Creditors				7,047	14	5
Purchases	36,421	11	8			
,, from Branches	2,857	14	3			
Sales				54,821	17	11
,, to Branches				1,723	17	8
Capital Account—B. Brown				18,862	3	10
Drawing Account—B. Brown	2,500	–	–			
Trade Expenses	172	19	2			
Wages	3,608	12	9			
Discounts Allowed	507	12	4			
Discounts Received				412	13	8
Printing and Stationery	220	18	4			
Advertising	286	10	9			
Carriage Inwards	526	14	5			
,, Outwards	817	11	2			
Salaries	627	6	8			
Bad Debts	287	5	6			
	82,868	7	6	82,868	7	6

Stock, 31st Dec., £5,648 13s. 2d.

BIRMINGHAM TRIAL BALANCE.

31st Dec., 19— | *Dr.* | *Cr.*

	Dr.			Cr.		
Plant and Machinery	4,187	10	8			
Cash in hand	94	13	4			
Cash at Bank	5,063	4	8			
Current Accounts—London				2,029	16	7
Dundee	864	9	10			
Stock, 1st Jan.	4,563	17	9			
Sundry Debtors	9,746	11	10			
Sundry Creditors				4,976	15	5
Purchases	28,198	4	10			
„ from Branches	2,673	10	2			
Sales				39,857	13	9
„ to Branches				3,163	11	6
Capital Account—J. Jones				12,183	18	4
Drawing Account—J. Jones	2,000	–	–			
Trade Expenses	104	19	7			
Wages	2,417	15	6			
Discounts Allowed	406	8	9			
Discounts Received				357	15	8
Printing and Stationery	107	13	10			
Advertising	216	18	6			
Carriage Inwards	419	19	5			
„ Outwards	796	4	11			
Salaries	508	10	6			
Bad Debts	198	17	2			
	62,569	11	3	62,569	11	3

Stock, 31st Dec., £4,617 11s. 8d.

DUNDEE TRIAL BALANCE.

31st Dec., 19— | *Dr.* | *Cr.*

	Dr.			Cr.		
Plant and Machinery	3,158	16	6			
Cash in hand	76	11	4			
Cash at Bank	4,586	9	5			
Current Accounts—London				1,970	18	6
Birmingham				864	9	10
Stock, 1st Jan.	3,616	15	11			
Sundry Debtors	7,658	12	9			
Sundry Creditors				3,018	11	7
Purchases	23,839	16	8			
„ from Branches	2,272	9	5			
Sales				32,759	12	11
„ to Branches				2,916	4	8
Capital Account—S. Smith				9,173	10	7
Drawing Account—S. Smith	1,500	–	–			
Trade Expenses	78	19	5			
Wages	1,987	14	3			
Discounts Allowed	314	16	5			
Discounts Received				296	14	6
Printing and Stationery	92	18	6			
Advertising	186	13	3			
Carriage Inwards	386	17	2			
Carriage Outwards	687	15	4			
Salaries	413	6	4			
Bad Debts	143	9	11			
	51,002	2	7	51,002	2	7

Stock, 31st Dec., £3,705 13s. 9d.

GENERAL TRADING AND PROFIT

FOR THE YEAR

	London.	Birmingham.	Dundee	Total.
To Stock, 1st Jan.	5,896 12 5	4,563 17 9	3,616 15 11	14,077 6 1
„ Purchases	36,421 11 8	28,198 4 10	23,839 16 8	88,459 13 2
„ „ from Branches	2,857 14 3	2,673 10 2	2,272 9 5	7,803 13 10
„ Wages	3,608 12 9	2,417 15 6	1,987 14 3	8,014 2 6
„ Carriage Inwards	526 14 5	419 19 5	386 17 2	1,333 11 –
„ Balance (Gross Profit)	12,883 3 3	9,365 9 3	7,277 17 11	29,526 10 5
	62,194 8 9	47,638 16 11	39,381 11 4	149,214 17 –
To Discounts Allowed	507 12 4	406 8 9	314 16 5	1,228 17 6
„ Carriage Outwards	817 11 2	796 4 11	687 15 4	2,301 11 5
„ Bad Debts	287 5 6	198 17 2	143 9 11	629 12 7
„ Printing and Stationery	220 18 4	107 13 10	92 18 6	421 10 8
„ Advertising	286 10 9	216 18 6	186 13 3	690 2 6
„ Salaries	627 6 8	508 10 6	413 6 4	1,549 3 6
„ Trade Expenses	172 19 2	104 19 7	78 19 5	356 18 2
„ Interest on Capital	943 2 2	609 3 11	458 15 6	2,011 1 7
„ Depreciation of Plant and Machinery	540 16 8	418 15 1	315 17 8	1,275 9 5
„ Balance (Net Profit)	8,891 14 2	6,355 12 8	4,882 – 1	20,129 6 11
	13,295 16 11	9,723 4 11	7,574 12 5	30,593 14 3
To B. Brown	5,927 16 2	1,588 18 2	1,627 6 8	9,144 1 –
„ J. Jones	1,481 19 –	3,177 16 4	1,627 6 8	6,287 2 –
„ S. Smith	1,481 19 –	1,588 18 2	1,627 6 9	4,698 3 11
	8,891 14 2	6,355 12 8	4,882 – 1	20,129 6 11

AND LOSS ACCOUNT

ENDING 31ST DEC., 19—

	London.			Birmingham.			Dundee.			Total.		
By Sales . . .	54,821	17	11	39,857	13	9	32,759	12	11	127,439	4	7
„ „ to Branches .	1,723	17	8	3,163	11	6	2,916	4	8	7,803	13	10
„ Stock, 31st Dec. .	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
	62,194	8	9	47,638	16	11	39,381	11	4	149,214	17	–
By Gross Profit b/d . .	12,883	3	3	9,365	9	3	7,277	17	11	29,526	10	5
„ Discounts Received .	412	13	8	357	15	8	296	14	6	1,067	3	10
	13,295	16	11	9,723	4	11	7,574	12	5	30,593	14	3
By Net Profit b/d .	8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11
	8,891	14	2	6,355	12	8	4,882	–	1	20,129	6	11

COLUMNAR BALANCE SHEET

Liabilities.	London.			Birmingham.			Dundee.			Total.		
Sundry Creditors . .	7,047	14	5	4,976	15	5	3,018	11	7	15,043	1	5
Current Accounts—												
London . . .		—		2,136	15	9	2,116	6	2	4,253	1	11
Birmingham . .		—		—	—		902	18	4	902	18	4
Dundee . . .		—		—	—		—	—		—	—	
Capital Accounts—												
B. Brown . .	26,449	7	–							26,449	7	–
J. Jones . . .				17,080	4	3				17,080	4	3
S. Smith . . .							12,832	10	–	12,832	10	–
	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

GENERAL BALANCE SHEET (ORDINARY FORM)

Liabilities.					
Sundry Creditors				15,043	1	5
Capital Accounts—						
B. Brown, 1st Jan. . . .	18,862	3	10			
Add Interest	943	2	2			
„ Share of Profits . .	9,144	1	–			
	28,949	7	–			
Less Drawings . . .	2,500	–	–			
				26,449	7	–
J. Jones, 1st Jan. . . .	12,183	18	4			
Add Interest	609	3	11			
„ Share of Profits . .	6,287	2	–			
	19,080	4	3			
Less Drawings . . .	2,000	–	–			
				17,080	4	3
S. Smith, 1st Jan. . . .	9,175	10	7			
Add Interest	458	15	6			
„ Share of Profits . .	4,698	3	11			
	14,332	10	–			
Less Drawings . . .	1,500	–	–			
				12,832	10	–
				71,405	2	8

AS AT 31ST DECEMBER, 19—

Assets.	London.			Birmingham.			Dundee.			Total.		
Cash in hand	178	3	9	94	13	4	76	11	4	349	8	5
Cash at Bank	7,157	12	2	5,063	4	8	4,586	9	5	16,807	6	3
Sundry Debtors	11,392	—	9	9,746	11	10	7,658	12	9	28,797	5	4
Current Accounts—												
London												
Birmingham	2,136	15	9		—			—		2,136	15	9
Dundee	2,116	6	2	902	18	4		—		3,019	4	6
Stock-in-trade	5,648	13	2	4,617	11	8	3,705	13	9	13,971	18	7
Plant and Machinery (*less* depreciation)	4,867	9	8	3,768	15	7	2,842	18	10	11,479	4	1
	33,497	1	5	24,193	15	5	18,870	6	1	76,561	2	11

AS AT 31ST DECEMBER, 19—

Assets.					
Cash in hand	349	8	5		
Cash at Bank	16,807	6	3		
				17,156	14	8
Sundry Debtors				28,797	5	4
Stock-in-Trade				13,971	18	7
Plant and Machinery (*less* depreciation)				11,479	4	1
				71,405	2	8

In London Ledger.

Dr. B. BROWN.—CAPITAL ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Dec. 31	To Drawings	2,500	–	–	Jan. 1	By Balance	18,862	3	10
,, ,,	Balance c/d	26,449	7	–	Dec. 31	,, Interest	943	2	2
					,, ,,	Share of Profits—			
						London	5,927	16	2
						Birmingham	1,588	18	2
						Dundee	1,627	6	8
		28,949	7	–			28,949	7	–
					19—				
					Jan. 1	By Balance b/d	26,449	7	–

Dr. BIRMINGHAM CURRENT ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Jan. 1	To Balance	2,029	16	7	Dec. 31	By Jones—Share of London profit	1,481	19	–
Dec. 31	,, Brown—Share of Birmingham profit	1,588	18	2	,, ,,	Balance c/d	2,136	15	9
		3,618	14	9			3,618	14	9
19—									
Jan. 1	To Balance b/d	2,136	15	9					

Dr. DUNDEE CURRENT ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Jan. 1	To Balance	1,970	18	6	Dec. 31	By Smith—Share of London Profit	1,481	19	–
Dec. 31	,, Brown—Share of Dundee Profit	1,627	6	8	,, ,,	Balance c/d	2,116	6	2
		3,598	5	2			3,598	5	2
19—									
Jan. 1	To Balance b/d	2,116	6	2					

In Birmingham Ledger.

Dr. J. JONES.—CAPITAL ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Dec. 31	To Drawings	2,000	–	–	Jan. 1	By Balance	12,183	18	4
,, ,,	Balance c/d	17,080	4	3	Dec. 31	,, Interest	609	3	11
					,, ,,	Share of Profits—			
						Birmingham	3,177	16	4
						London	1,481	19	–
						Dundee	1,627	6	8
		19,080	4	3			19,080	4	3
					19—				
					Jan. 1	By Balance b/d	17,080	4	3

Dr. LONDON CURRENT ACCOUNT. *Cr.*

19—		£	s	d	19—		£	s	d
Dec. 31	To Jones—Share of London Profit	1,481	19	–	Jan. 1	By Balance	2,029	16	7
,, ,,	Balance c/d	2,136	15	9	Dec. 31	,, Brown—Share of Birmingham Profit	1,588	18	2
		3,618	14	9			3,618	14	9
					19—				
					Jan. 1	By Balance b/d	2,136	15	9

Dr. DUNDEE CURRENT ACCOUNT. *Cr.*

19—					19—				
Jan. 1	To Balance	864	9	10	Dec. 31	By Smith—Share of Birmingham Profit	1,588	18	2
Dec. 31	„ Smith—Share of Dundee Profit	1,627	6	8	„	„ Balance c/d	902	18	4
		2,491	16	6			2,491	16	6
19—									
Jan. 1	To Balance b/d	902	18	4					

In Dundee Ledger.

Dr. S. SMITH.—CAPITAL ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Drawings	1,500	—	—	Jan. 1	By Balance	9,175	10	7
„	„ Balance c/d	12,832	10	—	Dec. 31	„ Interest	458	15	6
					„	„ Share of Profits—			
						Dundee	1,627	6	9
						London	1,481	19	—
						Birmingham	1,588	18	2
		14,332	10	—			14,332	10	—
					19—				
					Jan. 1	By Balance b/d	12,832	10	—

Dr. LONDON CURRENT ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Brown—Share of London Profit	1,481	19	—	Jan. 1	By Balance	1,970	18	6
„	„ Balance c/d	2,116	6	2	Dec. 31	„ Brown—Share of Dundee Profit	1,627	6	8
		3,598	5	2			3,598	5	2
					19—				
					Jan. 1	By Balance b/d	2,116	6	2

Dr. BIRMINGHAM CURRENT ACCOUNT. *Cr.*

19—					19—				
Dec. 31	To Jones—Share of Birmingham Profit	1,588	18	2	Jan. 1	By Balance	864	9	10
„	„ Balance c/d	902	18	4	Dec. 31	„ Jones—Share of Dundee Profit	1,627	6	8
		2,491	16	6			2,491	16	6
					19—				
					Jan. 1	By Balance b/d	902	18	4

FOREIGN EXCHANGE.

Before we proceed to treat of Foreign Branches, it is eminently advisable, if not absolutely necessary, to deal briefly with the subject of foreign exchange.

Foreign Exchange.—This term is used to describe the means by which nations discharge or settle the mutual indebtedness that

arises out of their trading with one another. Since, however, foreign debts are usually paid off by bills of exchange, the term is also used, in a narrow sense, to denote the principles governing the creation, negotiation, and payment of foreign bills of exchange.

Currency.—This term signifies the circulating medium of a country by means of which trade is carried on. **Metallic Currency** denotes the gold, silver, and copper coins in current use. **Paper Currency** denotes the bank notes, bills of exchange, cheques, etc., that are used as substitutes for coin. Paper currency is usually convertible into gold either on demand or at some fixed time; but in some countries the legal tender currency consists partly of inconvertible paper money, which, generally, has greatly depreciated, that is, passes for much less than the value of the coin it represents.

Unit of Currency.—Each country has, of course, its own currency and its own special terms for expressing monetary value. Each country has also some standard unit of currency for the purpose of financial calculations. In this country the unit is the £ sterling; *sterling* means standard English money. In France the unit is the franc, in Germany the mark, in the United States the dollar, in Russia the rouble, in Italy the lira, in India the rupee, in Japan the yen, and so on.

Rate of Exchange.—The rate of exchange is the rate at which the currency of one country can be converted into the currency of another. It consists of two terms, one fixed and the other fluctuating. Thus, in the exchange between London and Paris, the fixed term is the £1 sterling, and the fluctuating term is the varying number of francs and centimes given in exchange for the £1 sterling. In the exchange between London and India, the fixed term is the Indian rupee, and the fluctuating term is the varying amount of British pence given as an equivalent for the rupee. In quotations of "Rates of Exchange" only the fluctuating terms are, as a rule, stated, the fixed terms being understood.

Mint Par of Exchange.—The standard gold coins of countries that have a gold standard are mixtures of pure gold and alloy; pure gold is too soft for coinage purposes, and alloy hardens it and makes it more serviceable. Now, if all these countries mixed the gold and the alloy in the same proportions, we should have a uniform gold coin. But they do not. British gold, for instance, is $\frac{11}{12}$ths fine, that is, 11 parts pure gold to 1 part of alloy. Foreign gold, on the other hand, is mostly $\frac{9}{10}$ths fine, that is, 9 parts pure gold to 1 part of alloy. Hence, there is no uniform gold coin, because the standard gold coins of the various countries differ in weight and fineness. The coinage of each country, however, is governed by its coinage laws. In those countries, therefore, that have a gold standard, the relative values of their gold coins can be established

by calculating, from the coinage laws, the exact quantity of pure gold contained in each coin. By such means it is found that the British sovereign contains the same quantity of pure gold as the equivalent of 25.22 francs in French gold, 20.43 marks in German gold, 4.87 dollars in American gold, and so on. This exact equivalent is called the mint par of exchange. Where a country has only a silver standard, it is not possible to establish a mint par of exchange with a country that has a gold standard, owing to the fluctuating price of silver. The mint par of exchange, therefore, cannot change unless the coinage laws are altered.

Varying Rates of Exchange.—If remittances were made in gold, the rate of exchange would be the mint par of exchange, plus or less the cost of transporting the gold. The cost of transport is added if a country quotes the rate in its own currency, and deducted if a country quotes the rate in the currency of a foreign country. Settlement of international indebtedness, however, is effected by means of bills of exchange, this being a more convenient and cheaper method. Where the total debts of two countries are not equal, there will be an ultimate balance, which can only be settled by the import or export of gold. The mint par or nominal rate of exchange is seldom the existing rate of exchange; when it is, it is a mere coincidence. The commercial or actual rate of exchange varies from day to day, being influenced by many causes, principally, however, by the law of supply and demand; it may rise higher or fall lower than the mint par. The rate of exchange is said to be *favourable to* or *against* us, according as it is higher or lower than the mint par. Low rates are favourable to the country in whose currency they are quoted, because the purchasers of bills have to give *less* than the mint par value of money for the foreign equivalent. High rates are against the country in whose currency they are quoted, because the purchasers of bills have to give *more* than the mint par value of money for the foreign equivalent. There are limits, however, to the rise and fall of the rate of exchange. These limits are determined, theoretically, by the "gold points," that is, the points at which it becomes cheaper to send specie, *i.e.*, actual coin. The cost of packing, freight and insurance in the case of London and Paris is approximately 10 centimes per pound sterling. The gold points are therefore:—

Mint Par.		*Cost of Transport.*		*Gold Points.*
25.22	−	10c.	=	25.12 London to Paris
25.22	+	10c.	=	25.32 Paris to London

In the first case, £1 sterling will settle a debt of only 25.12 francs, the other 10 centimes being the cost of transport. A London merchant wishing to remit money to Paris will not, therefore, buy

a bill on Paris unless he can get a higher rate than 25.12 ; for, at this figure, he can ship gold. In the second case, likewise, it costs 25.32 francs to settle a debt of £1. A Paris merchant wishing to remit to London will not, therefore, buy a bill unless he can obtain a lower rate than 25.32, because, at this figure, he can just as cheaply remit gold. Theoretically, then, the rates of exchange cannot vary beyond the limits of the gold points. In actual practice, however, the rates of exchange do at times, for special reasons, rise above and fall below the import and export specie points.

How Rates of Exchange are Quoted.—There is, of course, a market for foreign bills just the same as for other commodities. In London the bill brokers and foreign bankers used to meet on Tuesdays and Thursdays at the Royal Exchange for the purpose of buying and selling foreign bills. In February, 1921, however, these meetings were discontinued, as business in bills had become more and more a matter of bargaining, and all the joint stock banks were conducting foreign exchange operations. The current rates of exchange can be seen on the financial page of almost every important daily paper. There are two ways in which the rate of exchange between countries may be quoted. The rate of exchange may state (1) the foreign equivalent of the English unit of currency, *i.e.*, the £1 sterling as, in the case of the United States, 4.90 dollars to the £ ; or it may state (2) the amount of English pence equivalent to the foreign monetary unit, as, in the case of Brazil, 15½d. per milreis. In some cases both ways are in use even between two and the same countries. Thus, the United States quotes London in dollars and cents to the £, but London quotes the United States in pence to the dollar. London quotes Spain in pence to the peso (1 peso = 5 pesetas), but Spain quotes London in pesetas and centimes to the £. Again, London quotes Holland in guilders (Dutch florins) and stivers (1 stiver = 5 cents) to the £, while Holland quotes London in florins and cents to the £. In the case of India, China, Japan, and Argentina, London aways quotes pence to the foreign unit of currency.

Conversion of Currency into Sterling.—The calculation required will be either a division or multiplication sum, according to how the rate is quoted.

(*a*) *When the Rate of Exchange states the equivalent of the foreign currency to the English unit, i.e., the £ sterling.*

Rule.—Divide the currency amount by the rate, after adding on noughts, if necessary, to clear any decimals in the divisor. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence (as previously explained in Chapter IX, page 285).

TABLE OF FOREIGN MONEYS.

The following are the principal coins in use in the chief commercial countries. As the exchange value is not constant, the Mint par value is given, or, in the case of silver standards, an appropriate value.

Country.	Monetary Unit and its Sub-division.	Par Value.
		s. d.
Argentine Republic	100 centavos = 1 peso	1 9
Austria	100 heller = 1 krone	10
Belgium	100 centimes = 1 franc	9½
Brazil	1,000 reis = 1 milreis	1 4
Canada	100 cents = 1 dollar	4 2
Chile	100 centavos = 1 peso	1 6
China	100 cents = 1 dollar	2 0
Egypt	100 piastres = £1 Egypt	20 6
France	100 centimes = 1 franc	9½
Germany	100 pfennige = 1 mark	11¾
Greece	100 lepta = 1 drachma	9½
India	16 annas = 1 rupee	1 4
Italy	100 centesimi = 1 lira	9½
Japan	100 sen = 1 yen	2 0½
Netherlands	100 cents = 1 gulden	1 8
Portugal	100 centavos = 1 escudo	4 5
Russia	100 kopecks = 1 rouble	2 1½
Scandinavia	100 ore = 1 crown	1 1
Spain	100 centimos = 1 peseta	9½
Switzerland	100 centimes = 1 franc	9½
Turkey	100 piastres = £1 Turkish	18 0
United States	100 cents = 1 dollar	4 2

The column of par value must be read with the caution that it gives the gold values. The silver values depend either on the $15\frac{1}{2}:1$ ratio or on the market price of silver. The Mint value of any silver coin when taken as a token is very different from its market value. This varies from day to day and depends upon the supply of coins and the price of silver. The market value is usually its approximate to its intrinsic value, but supply and demand may raise and depress the price.

In many of the countries mentioned above, the currency question is in a state of confusion, and although nominally on a gold basis the circulating medium is chiefly paper money.

Example 1.—Find the value in sterling of $10,351 at $4·87 to the £.

$$\frac{10351}{4{\cdot}87} = \frac{1035100}{487} = £2{,}125{\cdot}462 = £2{,}125\ \ 9s.\ 3d.$$

Example 2.—Convert into sterling 9,121 dollars 14 cents at 5·04 dollars to the £.

$$\frac{9121{\cdot}14}{5{\cdot}04} = \frac{912114}{504} = £1{,}809{\cdot}75 = £1{,}809\ \ 15s.\ 0d.$$

Example 3.—Exchange into the sterling equivalent $8462·80 at $5 to the £.

$$8462{\cdot}80 \div 5 = £1{,}692{\cdot}560 = £1{,}692\ \ 11s.\ 3d.$$

(b) When the Rate of Exchange states the amount of English pence equivalent to the foreign monetary unit.

Rule.—Multiply the currency amount by the rate and divide by 240. The answer will be in pounds and decimals of a pound. Convert the latter, at sight, into shillings and pence.

Example 1.—Find the sterling value of 45,480 milreis at 15d. per milreis.

$$\frac{45480 \times 15}{240} = £2842{\cdot}50 = £2{,}842\ \ 10s.\ 0d.$$

Example 2.—Exchange into sterling 78,837 roubles 34 copecks at 24½d. per rouble.

$$\frac{78837{\cdot}34 \times 24\frac{1}{2}}{240} = £8047{\cdot}978 = £8{,}047\ \ 19s.\ 7d.$$

Example 3.—Find the sterling equivalent of 2,428 rupees 13 annas at 1s. 4d. per rupee.

$$\frac{2428 \times 16}{240} = £161{\cdot}866$$

	£	s.	d.
=	161	17	4

16 annas = 1 rupee = 16d.
1 anna = 1d.
13 annas = 13d. = 1 1

Answer = £161 18 5

Modern Methods of Calculating.—Much time and labour may be saved by the student adopting modern methods of calculation, principally contracted division, decimalisation at sight of shillings and pence, and conversion at sight of decimals into shillings and pence. The following examples will show clearly the advantages to be derived by so doing.

Example 1.—Find the value in sterling of 36,277·75 francs at 25·28¼ francs to the £.

Old Method.

252825)362777500(1434
252825
1099525
1011300
882250
758475
1237750
1011300
226450
20
4529000(17s.
252825
2000750
1769775
230975
12
2771700(10d.
2528250
243450
4
973800(¼
758475
215325

Ans. = £1,434 17s. 11d.

Modern Method.

25·2825 36277·75
Multiplying by 4—
10,1,1,3)14511100(1434·895
43981
35290
49510
9058
968
58
7

Ans. = £1,434 17s. 11d.

Example 2.—Find the value in francs and centimes of £1,434 17s. 11d. at 25·28¼ francs to the £.

Old Method.

		25·2825
		1434
		1011300
		758475
		1011300
		252825
£1,434	=	36255·1050
10s. = ½ of £1	=	12·641
5s. = ½ of 10s.	=	6·320
2s. = ⅕ of 10s.	=	2·528
8d. = ⅓ of 2s.	=	·842
3d. = ⅛ of 2s.	=	·316
		36277·75

Ans. = 36,277 francs 75 centimes.

Modern Method.

(*a*) 14348·960 × 2·528¼

28697·92	0
7174·48	0
286·97	9
114·79	1
3·58	7
36277·75	

Or (*b*) 14348·96 × 528252

28697·92
7174·48
286·98
114·78
2·87
·72
36277·75

Ans. = 36,277 francs 75 centimes.

Construction of Tables for Converting Sterling into Currency.—In the business office or counting house the student will, no doubt, find a specially compiled and printed book of Tables by means of which the conversion of sterling into currency can be simply and rapidly effected. Small decimal Tables of nine multiples are extremely useful, and can be very easily constructed by the student for his own use. All that is necessary is to start with some given rate for the £, and then find the decimal base for the shillings and pence respectively. For example, suppose we wish to construct a Table for converting sterling into francs and centimes at the rate of 25·22 francs to the £. First, as £1 is the sterling equivalent of 25·22 francs, this amount will form the pounds basis; then £2 will equal 50·44 francs, and so on. Next, 25·22 francs ÷ 20 (£1 = 20s.) gives 1·261 francs, which is the equivalent of 1s., and thus forms the shillings basis; then 2s. will equal 2·522 francs, and so on. Again, 1·261 francs ÷ 12 (1s. = 12d.) gives ·105083̇, which is the equivalent of 1d., and thus forms the pence basis; then 2d. will equal ·21016̇6̇ francs, and so on.

To multiply by 10, move the decimal point one place to the right; by 100, 2 places; by 1,000, 3 places; by 10,000, 4 places; and so on.

To multiply by ·1, move the decimal point 1 place to the left; by ·01, 2 places; by ·001, 3 places; and so on.

TABLE.

For Converting Sterling into *francs* and *centimes* at the Rate of 25·22 francs to the £.

No.	Pounds.	Shillings.	Pence.
1	25·22 francs	1·261 francs	·105083 francs
2	50·44 „	2·522 „	·210166 „
3	75·66 „	3·783 „	·315249 „
4	100·88 „	5·044 „	·420333 „
5	126·10 „	6·305 „	·525416 „
6	151·32 „	7·566 „	·630499 „
7	176·54 „	8·827 „	·735583 „
8	201·76 „	10·088 „	·840666 „
9	226·98 „	11·349 „	·945749 „

Example.—Convert £110 8s. 11d. into francs and centimes at the rate of 25·22 francs to the £.

£100 =	2522·0000	francs
£10 =	252·2000	„
8s. =	10·0880	„
10d. =	1·0508	„
1d. =	·1050	„
	2785·44	

Ans. = 2,785 francs 44 centimes.

Proof.

2,5,2,2)278544(110·445

2634

1124

115

14

1

£110·445 = £110 8s. 11d.

In constructing a similar Table for marks and pfennigs, we have—

£1 sterling = 20·43 marks = pounds basis;

$$1s. = \frac{20{\cdot}43}{20} = 1{\cdot}0215 \text{ marks} = \text{shillings basis;}$$

$$1d. = \frac{1{\cdot}0215}{12} = {\cdot}085125 \text{ marks} = \text{pence basis;}$$

and hence the following figures

TABLE.

For Converting Sterling into *marks* and *pfennige* at the Rate of 20·43 marks to the £.

No.	Pounds.	Shillings.	Pence.
1	20·43 marks	1·0215 marks	·085125 marks
2	40·86 „	2·0430 „	·170250 „
3	61·29 „	3·0645 „	·255375 „
4	81·72 „	4·0860 „	·340500 „
5	102·15 „	5·1075 „	·425625 „
6	122·58 „	6·1290 „	·510750 „
7	143·01 „	7·1505 „	·595875 „
8	163·44 „	8·1720 „	·681000 „
9	183·87 „	9·1935 „	·766125 „

Example.—Convert £68 18s. 8d. into marks and pfennigs at the rate of 20·43 marks to the £.

£60 = 1225·80 marks
£8 = 163·44 „
18s. = 18·387 „ (twice 9)
8d. = ·681 „

1408·30

Proof.

2,0,4,3)140830(68·933

18250

1906

67

6

Ans. = 1,408 marks 30 pfennige. £68·933 = £68 18s. 8d.

In constructing a similar Table for roubles and copecks, we have:—

25d. = 1 rouble;
1d. = $\frac{1}{25}$ „ = ·04 roubles = pence basis;
1s. = 12 pence = ·48 „ = shillings basis;
£1 = 20 shillings = 9·60 „ = pounds basis;

and hence the following figures:—

TABLE.

For Converting Sterling into *roubles* and *copecks* at the Rate of 25d. to 1 rouble.

No.	Pounds.	Shillings.	Pence.
1	9·60 roubles	·48 roubles	·04 roubles
2	19·20 „	·96 „	·08 „
3	28·80 „	1·44 „	·12 „
4	38·40 „	1·92 „	·16 „
5	48·00 „	2·40 „	·20 „
6	57·60 „	2·88 „	·24 „
7	67·20 „	3·36 „	·28 „
8	76·80 „	3·84 „	·32 „
9	86·40 „	4·32 „	·36 „

Example.—Convert £672 14s. 8d. into roubles and copecks at the rate of 25d. per rouble.

£600	= 5760·00	roubles
£70	= 672·00	,,
£2	= 19·20	,,
14s.	= 6·72	,,
8d.	= ·32	,,
	6458·24	,,

Proof.

$$\frac{6458{\cdot}24 \times 25}{240} = £672{\cdot}733$$

£672·733 = £672 14s. 8d.

Ans. = 6,458 roubles 24 copecks.

Again, in constructing a similar Table for rupees, we have:—

£1 sterling = 15 rupees = pounds basis;
1s. = $\frac{1}{20}$ = ·75 rupees = shillings basis;
1d. = $\frac{1}{12}$s. = ·0625 rupees = pence basis;

and hence we have the following figures:—

TABLE.

For Converting Sterling into *rupees* and *annas* at the Rate of 16d. per rupee.

No.	Pounds.	Shillings.	Pence.
1	15 rupees	·75 rupees	·0625 rupees
2	30 ,,	1·50 ,,	·1250 ,,
3	45 ,,	2·25 ,,	·1875 ,,
4	60 ,,	3·00 ,,	·2500 ,,
5	75 ,,	3·75 ,,	·3125 ,,
6	90 ,,	4·50 ,,	·3750 ,,
7	105 ,,	5·25 ,,	·4375 ,,
8	120 ,,	6·00 ,,	·5000 ,,
9	135 ,,	6·75 ,,	·5625 ,,

Example.—Convert £489 17s. 11d. into rupees and annas at the rate of 16d. per rupee.

£400	= 6000	rupees
£80	= 1200	,,
£9	= 135	,,
10s.	= 7·5	,,
7s.	= 5·25	,,
10d.	= ·625	,,
1d.	= ·0625	,,
	7348·4375	
	16	
	7·0000.	

Proof.

$$\frac{7348 \times 16}{240} = £489{\cdot}86\dot{6} = £489\ 17\ 4$$

16 annas = 1 rupee
= 16d.
1 anna = 1d.

7 annas = 7

£489 17 11

Ans. = 7,348 rupees 7 annas.

Construction of Tables for Converting Currency into Sterling.—As previously mentioned, books of Tables will, no doubt, be in use in the office or counting house. Small decimal Tables of nine multiples can, however, be easily constructed by the student. In the case of marks and francs the base will be obtained by deduction from the figures for the £ sterling. Thus:—

20·43 marks = £1

$$1 \text{ mark} = £\frac{1}{20{\cdot}43}$$

= £0·04894762

25·22 francs = £1

$$1 \text{ franc} = £\frac{1}{25{\cdot}22}$$

= £0·03965107

Hence we obtain the following figures:—

TABLE.

For Converting *marks and pfennigs* into Sterling at the Rate of 20·43 marks to the £.

Marks.	£
1	·04894762
2	·09789524
3	·14684286
4	·19579048
5	·24273810
6	·29368572
7	·34263334
8	·39158096
9	·44052858

TABLE.

For Converting *francs* and *centimes* into Sterling at the Rate of 25·22 francs to the £.

Francs.	£
1	·03965107
2	·07930214
3	·11895321
4	·15860428
5	·19825535
6	·23790642
7	·27755749
8	·31720856
9	·35685963

Example.—Convert 1,408·30 marks into sterling at the rate of 20·43 marks to the £.

1,000	marks =	£48·9476
400	,, =	19·5790
8	,, =	·3915
·3	,, =	·0146
		68·933

£68·933 = £68 18s. 8d.

Proof.

68·933	
20·43	
1378·66	0
27·57	3
2·06	8
1408·30	Marks.

Example 2.—Convert 7612 francs 63 centimes into sterling at the rate of 25·22 francs to the £.

7,000	francs =	£277·5574
600	,, =	23·7906
10	,, =	·3965
2	,, =	·0793
·6	,, =	·0237
·03	,, =	·0011
		£301·849

£301·849 = £301 17s. 0d.

Proof.

301·849	
22·52	
6036·98	
1509·24	
60·37	
6·04	
7612·63	francs

In constructing Tables for roubles and milreis we start from the basis of the currency units and their equivalent in English pence.

1 rouble = 25d. = $£\frac{25}{240}$

= £0·10416̇

1 milreis = 15½d. = $£\frac{15\frac{1}{2}}{240}$

= £0·064583̇

Hence we obtain the following figures:—

TABLE.

For Converting *roubles and copecks* into Sterling at the Rate of 2s. 1d. per rouble.

Roubles.	£
1	·10416̇
2	·20833̇
3	·31249̇
4	·41666̇
5	·52083̇
6	·62499̇
7	·72916̇
8	·83333̇
9	·93749̇

TABLE.

For Converting *Milreis* into Sterling at the Rate of 1s. 3½d. per milreis.

Milreis.	£
1	·064583̇
2	·129166̇
3	·193749̇
4	·258333̇
5	·322916̇
6	·387499̇
7	·452083̇
8	·516666̇
9	·581249̇

Example 1.—Convert 18,427 roubles 27 copecks into sterling at the rate of 2s. 1d. per rouble.

10,000	roubles =	£1041·6666
8,000	„ =	833·3333
400	„ =	41·6666
20	„ =	2·0833
7	„ =	·7291
·2	„ =	·0208
·07	„ =	·0072
		£1919·507

£1,919·507 = £1,919 10s. 2d.

Proof.

£1,919 10s. 1¾d. = 460681·75d.

460681·75

25

= 18427·27 roubles.

Example 2.—Convert 6,734 milreis into sterling at the rate of 1s. 3½d. per milreis.

6,000	milreis =	£387·4999
700	„ =	45·2083
30	„ =	1·9374
4	„ =	·2583
		£434·904

£434·904 = £434 18s. 1d.

Proof.

£434 18s. 1d. = 104377d.

104377

$15\frac{1}{2}$

= 6,734 milreis.

FORMS OF FOREIGN REMITTANCES

Bank Draft, Commercial Bill.—In the rates of exchange two prices are quoted, one for bank drafts, the other for commercial or ordinary trade bills. The former is slightly dearer than the latter, as the banker has naturally a higher standing than an ordinary trader.

Telegraphic Transfer.—This is a message sent by wire, ordering the transfer of a specified sum of money from one person to another by means of debit and credit of their respective accounts. Branch business and agents abroad often cable to headquarters for immediate funds. Headquarters will then instruct their bankers to cable to the bank's representatives abroad to place a certain sum at the disposal of the branch or agency. This method of remittance is slightly dearer than buying a bill.

Council Drafts.—These are bills drawn by the British Government upon the India Government and payable in rupees at the treasuries in Calcutta, Bombay, or Madras. The India Government has to pay the British Government large sums of money for interest and other charges, and, when the state of the revenue permits, advises the India Council in London to draw on it in discharge of those liabilities. The Secretary of State for India invites, by means of advertisement, tenders for so many lacs of rupees. Bankers and merchants having remittances to make to India buy these drafts, or arrange for telegraphic transfers, paying for them with gold. Large imports of tea, jute, etc., are constantly being paid for in this way.

Sterling Bills on London.—Foreigners who owe us money prefer to remit us sterling bills on London, rather than have us draw on them in their own currency. Thus, England draws few bills, but accepts very many. Bills drawn in sterling on London can be converted into gold if necessary, first by exchange into Bank of England notes, and then by demanding, at the Bank, gold in exchange for the notes. London being thus a free market for gold, and being also the most important banking centre of the world, having a rate of exchange with every commercial country of any importance, sterling bills on London are readily negotiated abroad. These bills are not remitted by the drawers direct to London, but are purchased by other countries having payments to make to this country. We thus receive payment in our own money for goods sold to foreign countries.

TRANSACTIONS IN CURRENCY

We propose now to give two examples of the method of treating items in currency in the subsidiary books and Ledger. Generally speaking, the English merchant will invoice to his foreign customer in *sterling*, in order to ensure payment of the exact amount of the

invoice, thus leaving the customer to deal with any profit or loss on exchange. But there are cases where the reverse procedure is necessary in order to facilitate trade.

Example 1.—A. Smith of London sold goods to R. Brown of Chicago, as follows :—

12 cases Fancy Vases @ $8·35 per case.
12 „ „ Goods @ $11·46 „ „

The items were invoiced to Brown in currency and converted in Smith's books at the rate of $4·87. Brown remitted a draft, which was cashed at the rate of the day on which it was received, viz., $4·85. Show Smith's Day Book and Ledger with reference to the above.

In Smith's Books

FOREIGN SALES BOOK.

Date.	Particulars.	Ledger Folio.	Currency.		Sterling.		
	R. Brown, Chicago—						
	12 cases Fancy Vases @ $8·35		100	20			
	12 „ „ Goods at $11·46		137	52			
			237	72	48	16	3

FOREIGN SALES LEDGER.

Dr. R. BROWN, CHICAGO. *Cr.*

	$	c.	£	s.	d.		$	c.	£	s.	d.
To Goods . . .	237	72	48	16	3	By Draft . . .	237	72	49	–	3
„ Difference in Exchange (profit) .				4	–						
	237	72	49	–	3		237	72	49	–	3

Example 2.—T. Tomlin, of London, bought goods as under :—
(*a*) From Frère et Cie, Paris—

20 cases Goods @ fcs. 15·26
12 „ „ @ fcs. 11·78

(*b*) From Gebrüder Schmidt, Berlin—

20 cases Goods @ M. 16·87
12 „ „ @ M. 23·15

The first lot were converted at the rate of 25·22 and the second lot at 20·43. The goods were paid for by means of drafts purchased in the case of (*a*) at 25·27, and in the case of (*b*) at M. 20·38. Show the Purchase Book and Ledger Accounts for the above.

In Tomlin's Books

FOREIGN PURCHASES BOOK.

Date.	Particulars.	Ledger Folio.	Currency.		Sterling.		
	Frère et Cie—						
	20 cases Goods @ francs 15·26		305	20			
	12 „ „ @ francs 11·78		141	36			
			446	56	17	14	2
	Gebrüder Schmidt, Berlin—						
	20 cases Goods @ Marks 16·87		337	40			
	12 „ „ @ Marks 23·15		277	80			
			615	20	30	2	3

FOREIGN PURCHASES LEDGER.

Dr. FRÈRE ET CIE, PARIS. *Cr.*

	F.	c.	£	s.	d.		F.	c.	£	s.	d.
To Cash for Draft	446	56	17	13	5	By Goods	446	56	17	14	2
„ Difference in Exchange (profit)					9						
	446	56	17	14	2		446	56	17	14	2

Dr. GEBRÜDER SCHMIDT, BERLIN. *Cr.*

	M.	p.	£	s.	d.		M.	p.	£	s.	d.
To Cash for Draft	615	20	30	3	9	By Goods	615	20	30	2	3
						„ Difference in Exchange (loss)				1	6
	615	20	30	3	9		615	20	30	3	9

FOREIGN BRANCHES

Special Features.—As with home branches, so also with foreign branches, the book-keeping will vary according as the detail is recorded in the Head Office books or only in the Branch books. The general book-keeping will, therefore, be similar to that outlined in the preceding pages. The special features are the conversion of the accounts from currency into sterling, and the difficulties arising from the fluctuations in the rate of exchange.

Fixed and Fluctuating Rates of Exchange.—Where the rate of exchange is fairly stable, slight fluctuations are not taken into consideration at all, and the accounts, with the exception of the Remittance Account, are converted into sterling at a fixed rate of exchange, usually the mint par.

In other cases, where the rate of exchange is subject to violent fluctuations, the conversion of the accounts into sterling at a uniform rate for each item would result in showing fictitious Branch profits or losses. To obviate this, the accounts are converted at different rates, as under :—

(1) Remittances at the actual rate of the day when made or cashed.

(2) Fixed Assets, also additions thereto, at the rate of the day when purchased. Additions, however, are sometimes converted at the average rate for the year or period, especially if made at various dates throughout the year. Fixed Liabilities (loans, mortgages, etc.) at the rate ruling on the day they were incurred.

(3) Floating Assets and Liabilities at the current rate of exchange on the date of balancing the books.

(4) Revenue Items, *i.e.*, those affecting the Trading and Profit and Loss Account, at the average rate for the year or period. If the Branch Trial Balance discloses merely the Profit or Loss for the period, then there will be only this amount to convert at the average rate.

The fixed assets and liabilities will remain in the foreign books, and they should therefore appear from time to time at the same value. The floating assets and liabilities are converted at the current rate at the date of balancing, in order that the Balance Sheet may be an approximately correct representation of the state of affairs. The revenue items are converted at the average rate for the period, because they have been going on continuously throughout the year. The Stocks at the commencement and close of the period, although they appear in the Trading Account, are converted, however, at the current rate on the dates of balancing. Thus, the Stock at the commencement will appear in the current Trading Account at the same value as it appeared in the Balance Sheet of the previous period.

Procedure in the Head Office Books.—Where the whole of the book-keeping is done by the Head Office, the Foreign Branch Ledger will be ruled with double columns, one for currency, and the other for sterling. Entries will be made from the periodical Branch Returns, the items being converted into sterling at once, if a fixed rate of exchange is employed, and at balancing time, if various rates are employed.

Where the Branch forwards to the Head Office a copy of its Trial Balance in currency, the Head Office is obliged to convert the various items into sterling before it can bring them to account. This will be done either at one fixed rate or at various rates, as the case may be. The Remittance Account is, of course, already converted, the remittances having been cashed on the day they were received from the Branch, or purchased on the day they were

forwarded to the Branch. The value in sterling of the Head Office Account is also known, being the amount brought forward from the last balancing.

Difference in Exchange.—If, after conversion into sterling, the two columns of the Branch Trial Balance do not agree (and it may be taken that they never will) the totals must be made to correspond, by writing the balance on the lesser side, designating it "Difference in Exchange." A debit balance will signify a loss, and a credit balance will denote a profit; this amount will be debited or credited to the Branch Profit and Loss Account in the same way as other gains and losses. Where, however, the items are all converted at the same fixed rate, there will be no "Difference in Exchange" except for that appearing in the Remittance Account. In some cases, the profit or loss on exchange is not shown as a separate item, but is apportioned among the various items of expenditure, thus making the latter proportionately less in the case of a profit on exchange, and proportionately greater in the case of a loss.

Example 1.—Convert the following Trial Balance into sterling:—

BROOKLYN BRANCH TRIAL BALANCE.

31st Dec., 19—	*Dr.*		*Cr.*	
	Dols.	Cts.	Dols.	Cts.
Fixtures and Fittings	2,606	40		
Bills Receivable	5,916	45		
Sundry Debtors	9,841	28		
Sundry Creditors			2,370	65
Stock, 1st Jan.	5,175	50		
Purchases	18,465	32		
Sales			33,750	25
Discounts Allowed	625	34		
Discounts Received			297	48
Sundry Expenses	1,383	80		
Wages and Salaries	3,412	75		
Rent, Rates, Taxes, and Insurance	725	56		
Bad Debts	439	29		
Depreciation	128	32		
Cash in hand	455	25		
Cash at Bank	4,560	57		
Head Office A/c, 1st Jan.			32,067	45
Remittances to Head Office	14,750	—		
	68,485	83	68,485	83
Stock, 31st Dec., $5,255.				

Rate of Exchange at date of last balancing (31st Dec.)	4·87
,, ,, this 31st Dec. (current rate)	5·04
Average Rate for Year	4·96
Rate when Fixtures were purchased	4·88

In the Head Office books the Branch Account and the Remittances from Branch appear as £6,372 11s. 5d. and £2,898 13s. 8d. respectively.

BROOKLYN BRANCH TRIAL BALANCE.

31st Dec., 19—	Rate of Conversion.	Dr. £	s.	d.	Cr. £	s.	d.
Fixtures and Fittings	4·88	534	2	–			
Bills Receivable	5·04	1,173	18	–			
Sundry Debtors	5·04	1,952	12	8			
Sundry Creditors	5·04				470	7	4
Stock, 1st Jan.	4·87	1,062	14	7			
Purchases	4·96	3,722	16	11			
Sales	4·96				6,804	9	9
Discounts Allowed	4·96	126	1	6			
Discounts Received	4·96				59	19	6
Sundry Expenses	4·96	278	19	10			
Wages and Salaries	4·96	688	1	2			
Rent, Rates, Taxes, and Insurance	4·96	146	5	8			
Bad Debts	4·96	88	11	4			
Depreciation	4·96	25	17	5			
Cash in hand	5·04	90	6	7			
Cash at Bank	5·04	904	17	6			
Head Office A/c, 1st Jan.					6,372	11	5
Remittances to Head Office		2,898	13	8			
Difference in Exchange (loss)		13	9	2			
		13,707	8	0	13,707	8	0
Stock, 31st Dec., at 5·04 = £1,042 13s. 2d.							

The above figures can now be incorporated in the Head Office books by means of Journal entries similar to those in Example 6, the net profit being £1,754 4s. 10d.

Where the foreign branch, instead of forwarding a duplicate of its Trial Balance, sends over merely an audited copy of its Trading and Profit and Loss Account and Balance Sheet, then only the net profit will require to be incorporated in the Head Office books. This is done by means of the following Journal entry :—

HEAD OFFICE JOURNAL.		Dr.			Cr.		
19—							
Dec. 31	Branch Current A/c	1,754	4	10			
	To Profit and Loss A/c				1,754	4	10
	Transfer of profit on Brooklyn Branch.						

In the case of a loss, however, the entry would be the reverse of the above.

Depreciation.—Some accountants consider it incorrect to convert depreciation at the average rate for the year, even though it is a Revenue item, and prefer to convert fixed assets, and the depreciation of them, at the same rate. It should be noted that, in the case of foreign branches, depreciation is often dealt with exclusively by the Head Office, and on the *sterling* figures. In such cases the Head Office would make an adjusting entry in its Journal, thus:—

Depreciation	*Dr.*
To Branch Current Account	*Cr.*

and would also send a credit note for the amount to the Branch which would pass the item through the Branch books by means of a Journal entry similar to the following:—

Head Office Current Account	*Dr.*
To Fixtures and Fittings .	*Cr.*
for depreciation on same.	

Example 2.—From the following Trial Balances prepare Balance Sheet of the Brazil Trading Syndicate, Ltd., as at 31st Dec., 19—.

RIO DE JANEIRO TRIAL BALANCE.

31st Dec., 19—	*Dr.*	*Cr.*
	Milreis.	Milreis.
London Office A/c (£9,812 10s. 5d.) . . .		154,206
Furniture and Fixtures	4,174	
Sundry Debtors	89,462	
Sundry Creditors		15,950
Stock-in-Trade, 31st Dec.	88,920	
Cash at Bank	10,340	
Profit and Loss A/c (net profit for year) . . .		22,740
	192,896	192,896

LONDON TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Rio de Janeiro Office A/c (Remittances thereto at actual rates) .	9,812	10	5			
Share Capital A/c (20,000 shares of £1 each, 10s. per share paid up) .				10,000	–	–
Cash at Bank	457	16	8			
Profit and Loss A/c (balance 1st Jan.)				270	7	1
	10,270	7	1	10,270	7	1

Rate at date of last balancing (31st Dec.) . . 16d. per milreis
Rate this 31st Dec. (current rate) . . . 15½d. ,,
Average rate for year . . . . . 15d. ,,
Rate of day when Fixtures were purchased . . 15¾d. ,,

RIO DE JANEIRO TRIAL BALANCE.

(After Conversion.)

	Rate.	*Dr.* £	s.	d.	*Cr.* £	s.	d.
London Office A/c	—				9,812	10	5
Furniture and Fixtures	15¾	273	18	4			
Sundry Debtors	15½	5,777	15	1			
Sundry Creditors	15½				1,030	2	1
Stock-in-Trade	15½	5,742	15	–			
Cash at Bank	15¼	667	15	10			
Profit and Loss A/c (net profit for Year)	15				1,421	5	–
Difference in Exchange (profit)					198	6	9
		12,462	4	3	12,462	4	3

BALANCE SHEET

As at 31st Dec., 19—

Capital and Liabilities.				*Property and Assets.*			
Share Capital—				Furniture and Fixtures	273	18	4
20,000 Shares of £1 each, 10s. per share paid up	10,000	–	–	Stock-in-Trade	5,742	15	–
Sundry Creditors	1,030	2	1	Sundry Debtors	5,777	15	1
Profit and Loss Account—				Cash at Bank	1,125	12	6
Balance, 1st Jan. £270 7 1							
Add Net Profit for year 1,619 11 9							
	1,889	18	10				
	12,920	–	11		12,920	–	11

Mine, Plantation, Etc.—In the case of a foreign mine or plantation (tea, cocoa, rubber, tobacco, etc.), making monthly returns of its cash expenditure on capital and revenue account, the Head Office books would be ruled with double columns, one for currency and one for sterling; and both sets of figures would be recorded. At balancing time the conversion would take place—according to the special circumstances mentioned previously—either at a fixed rate or at varying rates. A Remittance Account is employed; but, in many cases, the remittances are from the Head Office to the Branch, instead of, as in other cases, from the Branch to the Head Office. The reason is that the Head Office has to finance the mine or plantation. The output or crop of the latter is forwarded

to Europe for sale by auction, and the proceeds are remitted direct to the Head Office, and therefore the Branch does not handle any of the money.

Example.—The Ceylon Tea Plantation Co., Ltd., remits to its foreign manager exchange for £9,800 in rupees at 1s. $3\frac{5}{16}$d. At the end of the month, the manager makes the following Return of his cash expenditure:—

	Rs.
Plantation Wages (planting)	15,000
,, ,, (manufacturing)	5,000
Salaries	2,000
Hospital Expenses	500
Machinery and Plant	20,000
Buildings, etc.	50,000
Rates and Taxes	500
General Expenses	600
Tools and Implements	20,000
Coolie Brokerage and Passage Money	10,000
	Rs. 123,600

You are required to show the records in the foreign books, and also in the Head Office books.

In Foreign Books

Dr. CASH BOOK. *Cr.*

19—		Rupees.[1]	Cts.[1]	19—		Rupees.	Cts.
Jan.	To London Office	153,600	–	Jan.	By Planting Wages	15,000	–
					,, Manufg. Wages	5,000	–
					,, Salaries	2,000	–
					,, Hospital Expenses	500	–
					,, Machinery & Plant	20,000	–
					,, Buildings	50,000	–
					,, Rates and Taxes	500	–
					,, General Expenses	600	–
					,, Tools & Implements	20,000	–
					,, Coolie Brokerage & Passage Money	10,000	–

[1] Indian Currency, but rupee divided into 100 cents.

LEDGER.

Dr. LONDON OFFICE. *Cr.*

				19—		Rupees.	Cts.
				Jan.	By Cash	153,600	–

In Head Office Books

CEYLON JOURNAL.

19—		Dr. Rupees.	Cts.	Cr. Rupees.	Cts.
Jan. 31	Planting Wages	15,000	–		
	Manufacturing Wages	5,000	–		
	Salaries	2,000	–		
	Hospital Expenses	500	–		
	Machinery and Plant	20,000	–		
	Buildings	50,000	–		
	Rates and Taxes	500	–		
	General Expenses	600	–		
	Tools and Implements	20,000	–		
	Coolie Brokerage and Passage Money	10,000	–		
	To Plantation Cash A/c for sundry disbursements during the month.			123,600	–

FLUCTUATING PAPER CURRENCY

Depreciated Paper Currency.—We have hitherto treated of metallic currencies, whose exchange fluctuations could be dealt with satisfactorily by taking the average rate for the year or trading period. We have now to consider the case of countries where the legal tender is a greatly depreciated paper currency, whose sterling equivalent is subject to violent changes, *e.g.*, the paper peso (dollar) of Chili and Argentina. So long as a paper currency is readily convertible into gold, it retains its face value. When it is inconvertible, it will retain its value only so long as its issue is strictly limited to actual business requirements. But the moment an inconvertible paper currency becomes over-issued, the trading community cannot absorb it, and forthwith a heavy depreciation sets in.

How British Book-keeping is Affected.—The connection of British book-keeping with such matters arises from the fact that many British companies are formed and registered in London, which have often only their head office in London, the business or works being situated in one of these South American republics. The company's capital is raised in sterling, and the results of the company's operations have naturally to be presented to the shareholders in sterling. Thus, to such companies, the question of fluctuating exchange and its proper treatment in the accounts is an all-important one.

Rates of Exchange and Procedure in the Books.—The aim of the book-keeping procedure of the London Office is to record the result of the foreign transactions in their approximate sterling equivalent. It is not possible to ascertain the exact £ s. d. value, for there is no fixed ratio of gold to silver. The exchange value of silver coins depends on the market price of silver, which is itself affected by the law of supply and demand. Owing to the incessant and violent fluctuations in the rate of exchange, the average rate for the year

CEYLON LEDGER.

Date.	Manufacturing Wages.		Planting Wages.		Hospital Expenses.		Machinery and Plant.		Buildings.		Rates and Taxes.		General Expenses.		Coolie Brokerage and Passage Money.		Tools and Implements		Salaries.		Total Currency.		Total Sterling.		
19—	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	R.	c.	£	s.	d.
Jan. 31	5,000	–	15,000	–	500	–	20,000	–	50,000	–	500	–	600	–	10,000	–	20,000	–	2,000	–	123600	–	8,240	–	–[1]

[1] At the assumed rate of 1s. 4d. per rupee.

The above form is used when all the items are converted periodically at the same rate, either a fixed rate or the average for the period, and when there is expenditure only.

The following form, however, is used when the items are converted at different rates. There would be a separate Ledger Account for each item of expenditure.

Dr. PLANTING WAGES ACCOUNT. *Cr.*

19—		R.	c.	£	s.	d.							
Jan. 31	To Cash	15,000	–										

Dr. CEYLON PLANTATION CASH ACCOUNT. *Cr.*

19—		R.	c.	£	s.	d.	19—		R.	c.	£	s.	d.
Jan. 31	To Remittance	153,600	–	9,800	–	–	Jan. 31	By Sundry Expenses as per Return	123,600	–			

will not give satisfactory results. When the business is transacted or the work executed, the value of the dollar may be 9d.; when payment is received, it may be 10½d.; when the bank balance admits of a remittance (possibly containing the profit on such business or work) being made to the London Office, the rate may have risen to 12d. or have dropped to 8d., the value of the paper peso (*i.e.*, dollar) varying from day to day and even from hour to hour. The only satisfactory way of dealing with such variations is to take the average rate of exchange for short periods, say, each month. This will suffice for all revenue transactions, and also for capital expenditure in the form of wages on capital account expended continuously throughout the month. Stores require special treatment, which will be explained later. Capital expenditure in the shape of fixed assets will, of course, be converted at the rate ruling on the date the assets were purchased, so that they may appear in the books at their approximate sterling cost. In the Branch books, all capital expenditure is transferred at balancing time to the London Office Account. The Branch Balance Sheet thus shows only the floating assets and liabilities, which are valued at the current rate of exchange on the date of such Balance Sheet. The difference between the floating assets and liabilities is represented by the balance of the London Office Account, which is converted into sterling at the same rate. Remittances are made to the Head Office usually by means of sterling bills on London. In the foreign books, the London Office Account will contain a memorandum *sterling* column; and, in the head office books, the Branch Office Account will be provided with a memorandum *currency* column. At balancing time, any difference between the *Dr.* and *Cr.* sides of the memorandum columns is written off as profit or loss on exchange.

Example 1.—The British Engineering Company, Ltd., has a branch works in Chili. The following is the Balance Sheet of the Branch as at 31st Dec., and a summary of its transactions for the ensuing three months. The items are converted into sterling in the Head Office books at the average rate of exchange for each month. Any capital expenditure is transferred quarterly to the London Office Account. You are required to write up and balance the foreign books, and also to show the records in the London books.

BRANCH BALANCE SHEET, 31st Dec.

Liabilities.	$	*Assets.*	$
Sundry Creditors . .	8,000	Bank Balance . . .	15,000
London Office . .	42,000	Sundry Debtors . .	35,000
	50,000		50,000

Rate of Exchange, 31st Dec., $ = 10d.

SUMMARY OF TRANSACTIONS.

	January.	February.	March.
Gross Revenue earned	$35,000	$45,000	$55,000
Trade Expenses accrued	12,000	17,000	21,000
Wages paid on Revenue A/c	8,000	9,000	10,000
Expenditure incurred on Capital A/c	5,000	6,000	4,000
	@ 9d.	@ 10½d.	@ 10d.
Cash received from Debtors	30,000	45,000	58,000
Cash paid to Creditors	15,000	20,000	28,000
Average Rate of Exchange	9d.	10½d.	10d.

Remittances to Head Office (sterling bills on London):—
Jan. 28th, $12,000 @ 10d.; Feb. 27th, $15,000 @ 10½d.; March 29th, $20,000 @ 11d.
Rate of Exchange, 31st March, $ = 10½d.

In Foreign Books.

	JOURNAL.	*Dr.*	*Cr.*
		£	$
Jan. 31	Sundry Debtors To Work Done A/c for gross revenue earned.	35,000	35,000
31	Trade Expenses To Sundry Creditors for expenses accrued.	12,000	12,000
31	Capital Expenditure To Sundry Creditors for expenditure incurred = £187 10s. @ 9d. per $.	5,000	5,000
Feb. 28	Sundry Debtors To Work Done A/c for gross revenue earned.	45,000	45,000
28	Trade Expenses To Sundry Creditors for expenses accrued.	17,000	17,000
28	Capital Expenditure To Sundry Creditors for expenditure incurred = £262 10s. @ 10½d. per $.	6,000	6,000
Mar. 31	Sundry Debtors To Work Done A/c for gross income earned.	55,000	55,000
31	Trade Expenses To Sundry Creditors for expenses accrued.	21,000	21,000
31	Capital Expenditure To Sundry Creditors for expenditure incurred = £166 13s. 4d. @ 10d. per $.	4,000	4,000

Dr. CASH BOOK. *Cr.*

19—		$	19—		$
Dec. 31	To Balance	15,000	Jan. 31	By Wages	8,000
Jan. 31	„ Sundry Drs.	30,000	„	„ Sundry Crs.	15,000
			„	„ London Office (£500 @ 10d.)	12,000
			„	„ Balance c/d	10,000
		45,000			45,000
Jan. 31	To Balance b/d	10,000	Feb. 28	By Wages	9,000
Feb. 28	„ Sundry Drs.	45,000	„	„ Sundry Crs.	20,000
			„	„ London Office (£656 5s. @ 10½d.)	15,000
			„	„ Balance c/d	11,000
		55,000			55,000
Feb. 28	To Balance b/d	11,000	Mar. 31	By Wages	10,000
Mar. 31	„ Sundry Drs.	58,000	„	„ Sundry Crs.	28,000
			„	„ London Office (£916 13s. 4d. @ 11d.)	20,000
			„	„ Balance c/d	11,000
		69,000			69,000
Mar. 31	To Balance b/d	11,000			

LEDGER.

Dr. SUNDRY CREDITORS. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	15,000	Dec. 31	By Balance	8,000
Feb. 28	„ „	20,000	Jan. 31	„ Trade Expenses	12,000
Mar. 31	„ „	28,000	„	„ Capital Expenditure	5,000
„	„ Balance c/d	10,000	Feb. 28	„ Trade Expenses	17,000
			„	„ Capital Expenditure	6,000
			Mar. 31	„ Trade Expenses	21,000
			„	„ Capital Expenditure	4,000
		73,000			73,000
			Mar. 31	By Balance c/d	10,000

Dr. SUNDRY DEBTORS. *Cr.*

19—		$	19—		$
Dec. 31	To Balance	35,000	Jan. 31	By Cash	30,000
19—			Feb. 28	„ „	45,000
Jan. 31	„ Work done	35,000	Mar. 31	„ „	58,000
Feb. 28	„ „	45,000	„	„ Balance c/d	37,000
Mar. 31	„ „	55,000			
		170,000			170,000
Mar. 31	To Balance b/d	37,000			

Dr. WAGES. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	8,000	Jan. 31	By Revenue A/c	8,000
Feb. 28	To Cash	9,000	Feb. 28	By Revenue A/c	9,000
Mar. 31	To Cash	10,000	Mar. 31	By Revenue A/c	10,000

Dr. CAPITAL EXPENDITURE. *Cr.*

19—		Rate.	£	s.	d.	$	19—		Rate.	£	s.	d.	$
Jan. 31	To Sundry Crs. . .	9d.	187	10	–	5,000	Mar. 31	By Transfer to London Office A/c . .		616	13	4	15,000
Feb. 28	,, do. . .	10½d.	262	10	–	6,000							
Mar. 31	,, do. . .	10d.	166	13	4	4,000							
			616	13	4	15,000				616	13	4	15,000

Dr. LONDON OFFICE. *Cr.*

19—		Rate.	£	s.	d.	$	19—		Rate.	£	s.	d.	$
Jan. 28	To Cash . . .	10d.	500	–	–	12,000	Dec. 31	By Balance . .	10d.	1,750	–	–	42,000
Feb. 27	,, do. . . .	10½d.	656	5	–	15,000	19—						
Mar. 29	,, do. . . .	11d.	916	13	4	20,000	Jan. 31	,, Revenue A/c (profit)	9d.	562	10	–	15,000
31	,, Capital Expenditure transferred . .		616	13	4	15,000	Feb. 28	,, do. . . .	10½d.	831	5	–	19,000
							Mar. 31	,, do. do.	10d.	1 000	–	–	24,000
,,	,, Balance c/d . .	10½d.	1,662	10	–	38,000		,, ,, Profit on Exchange		208	6	8	
			4,352	1	8	100,000				4,352	1	8	100,000
							Mar. 31	By Balance b/d . .	10½d.	1,662	10	–	38,000

Dr. TRADE EXPENSES. *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Crs.	12,000	Jan. 31	By Revenue A/c	12,000
Feb. 28	To Sundry Crs.	17,000	Feb. 28	By Revenue A/c	17,000
Mar. 31	To Sundry Crs.	21,000	Mar. 31	By Revenue A/c	21,000

Dr. WORK DONE. *Cr.*

19—		$	19—		$
Jan. 31	To Revenue A/c	35,000	Jan. 31	By Sundry Drs.	35,000
Feb. 28	To Revenue A/c	45,000	Feb. 28	By Sundry Drs.	45,000
Mar. 31	To Revenue A/c	55,000	Mar. 31	By Sundry Drs.	55,000

TRIAL BALANCES.

	January.		February.		March.	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	$	$	$	$	$	$
Sundry Debtors	40,000		40,000		37,000	
Sundry Creditors		10,000		13,000		10,000
Capital Expenditure	5,000		11,000			
London Office		45,000		49,000		38,000
Cash at Bank	10,000		11,000		11,000	
	55,000	55,000	62,000	62,000	48,000	48,000

Dr. REVENUE ACCOUNT. *Cr.*

19—		$	19—		$
Jan. 31	To Wages	8,000	Jan. 31	By Work Done	35,000
"	" Trade Expenses	12,000			
"	" Balance (net profit transferred to London Office A/c £562 10s. @ 9d.)	15,000			
		35,000			35,000
Feb. 28	To Wages	9,000	Feb. 28	By Work Done	45,000
"	" Trade Expenses	17,000			
"	" Balance (net profit transferred to London Office A/c = £831 5s. @ 10½d.)	19,000			
		45,000			45,000
Mar. 31	To Wages	10,000	Mar. 31	By Work Done	55,000
"	" Trade Expenses	21,000			
"	" Balance (net profit transferred to London Office A/c = £1,000 @ 10d.)	24,000			
		55,000			55,000

BALANCE SHEET, 31ST MARCH, 19..

Liabilities.	$	*Assets.*	$
Sundry Creditors	10,000	Cash at Bank	11,000
London Office (= £1,662 10s. @ 10½d.)	38,000	Sundry Debtors	37,000
	48,000		48,000

In London Books.

JOURNAL.

	Dr.	*Cr.*
Remittances in Transit	2,072 18 4	
To Chili Branch A/c		2,072 18 4
for the following Remittances—		
Jan. 28th, $12,000 @ 10d. = £500		
Feb. 27th, $15,000 @ 10½d. = £656 5s.		
Mar. 29th, $20,000 @ 11d. = £916 13s. 4d.		
Capital Expenditure	616 13 4	
To Chili Branch A/c		616 13 4
for expenditure as follows—		
Jan., $5,000 @ 9d. = £187 10s.		
Feb., $6,000 @ 10½d. = £262 10s.		
Mar., $4,000 @ 10d. = £166 13s. 4d.		
Chili Branch A/c	2,393 15 –	
To Profit and Loss A/c		2,393 15 –
for Branch profits as follows—		
Jan., $15,000 @ 9d. = £562 10s.		
Feb., $19,000 @ 10½d. = £831 5s.		
Mar., $24,000 @ 10d. = £1,000.		
Chili Branch A/c	208 6 8	
To Profit and Loss A/c		208 6 8
profit on exchange transferred.		

LEDGER.

Dr. REMITTANCES IN TRANSIT. *Cr.*

To Chili Branch A/c	2,072	18	4			

Dr. CAPITAL EXPENDITURE. *Cr.*

To Chili Branch A/c	616	13	4			

Dr. CHILI BRANCH ACCOUNT. *Cr.*

	$	Rate.	£	s.	d.		$	Rate.	£	s.	d.
To Balance	42,000	10d.	1,750	–	–	By Remittances in Transit—					
„ Profit and Loss A/c (net profits)—						Jan.	12,000	10d.	500	–	–
Jan.	15,000	9d.	562	10	–	Feb.	15,000	10½d.	656	5	–
Feb.	19,000	10½d.	831	5	–	Mar.	20,000	11d.	916	13	4
Mar.	24,000	10d.	1,000	–	–	„ Capital Expenditure—					
„ Profit and Loss A/c (difference in exchange)			208	6	8	Jan.	5,000	9d.	187	10	–
						Feb.	6,000	10½d.	262	10	–
						Mar.	4,000	10d.	166	13	4
						„ Balance c/d	38,000	10½d.	1,662	10	–
	100,000		4,352	1	8		100,000		4,352	1	8
To Balance b/d	38,000	10½d.	1,662	10	–						

Dr.	PROFIT AND LOSS ACCOUNT.			Cr.
	By Chili Branch (net profit)	2,393	15	-
	„ Chili Branch (difference in exchange)	208	6	8
		2,602	1	8

Stores Accounts.—It is necessary that Stores Accounts should be kept on a fixed basis. The disadvantage of Stores Accounts being kept in a fluctuating currency is that the method produces very inaccurate results, the same Stores being charged out sometimes above cost, and sometimes below cost. This can best be shown by means of an illustration.

Suppose Stores are bought from the London Office for £342 in January, on a day when the rate of exchange is 9½d. (= $8,640), and that these Stores are used, one-third in February on revenue account, one-third in March on capital account, and one-third in April on revenue account. Assuming the transactions to be dealt with in the local paper currency, and that the average rates of exchange for the months are: Feb. 9d., March 10½d., and April 12d. respectively, we should have the following entries:—

JOURNAL.		Dr.	Cr.
19—		$	$
Feb.	Stores Consumed A/c	2,880	
	To Stores A/c		2,880
Mar.	Capital Expenditure	2,880	
	To Stores A/c		2,880
Apr.	Stores Consumed A/c	2,880	
	To Stores A/c		2,880

The Stores Consumed Account is transferred to the Revenue Account, the balance of which is carried to the London Office Account and converted into sterling at the average rate for the month; this is equivalent to the whole of the Revenue Account items being converted into sterling at the same rate and then balanced. The Capital Expenditure is transferred ultimately to the London Office Account, and is converted into sterling at the average rate for the month.

We then arrive at the following results:—

The Stores Consumed in Feb. are converted	($2,880 @ 9d.) into	£108
„ Capital Expenditure in March is	„ ($2,880 @ 10½d.) „	126
„ Stores Consumed in April are	„ ($2,880 @ 12d.) „	144
Total		£378

Thus, Stores that cost £342 have been charged out to various accounts at £378. Furthermore, one-third of £342 = £114, so that in not one case are the amounts charged even approximately accurate. Obviously, therefore, this is an improper and unsatisfactory method of treatment.

To obviate such inaccuracy the Stores Account is kept on a fixed currency basis and not in the fluctuating paper currency. By the side of the currency column in the Stores Account, a standard figure column is kept, and all receipts and issues of stores are made in standard figures. At the same time, these figures are converted at the average rate for the month into currency figures, in order that the currency books may be posted and balanced. By this means stores are charged out at the same value as received. The standard figure column is only a *memorandum* column, and forms no part of the double entry. It does not matter what standard is adopted, whether sterling or dollars, but the latter is usually preferred, as a decimal system is more convenient for calculation. Working, then, the previous example with a standard dollar figure —say 18d. to the dollar—we have the following account in the Ledger and also that given on next page.

Dr. STORES CONSUMED ACCOUNT. *Cr.*

		$		
Feb.	To Stores A/c . . .	3,040.00		
Apr.	To Stores A/c . . .	2,280.00		

Owing to the standard dollars having been converted at varying rates into currency dollars, there will be a difference (although the Stores are all used) between the two sides of the currency column. This is adjusted at balancing time by a contra transfer to the currency column of the London Office Account. The balance of the latter is not really affected by such transfer, because, in the Head Office books, the currency column is only a memorandum column. The London Office Account would appear as under :—

Dr. LONDON OFFICE ACCOUNT. *Cr.*

		Rate.	£	s.	d.	$			Rate.	£	s.	d.	$
	To Stores A/c (adjustment)					714.29	19— Jan.	By Stores A/c	9½d.	342	–	–	8,640.00

By the foregoing method, then, we arrive at the following results :

The Stores Consumed in Feb. are converted	($3,040 @ 9d.)	into	£114
„ Capital Expenditure in March is	„ ($2,605.71 @ 10½d.)	„	114
„ Stores Consumed in April are	„ ($2,280 @ 12d.)	„	114
	Total		£342

Dr. STORES ACCOUNT. *Cr.*

19—		Rate.	18d. $	$	19—		Rate.	18d. $	$
Jan.	To London Office . .	9½d.	4,560.00	8,640.00	Feb.	By Stores Consumed .	9d.	1,520.00	3,040.00
					Mar.	,, Capital Expenditure .	10½d.	1,520.00	2,605.71
					Apr.	,, Stores Consumed .	12d.	1,520.00	2,280.00
						,, London Office, Adjustment . . .			714.29
			4,560.00	8,640.00				4,560.00	8,640.00

Dr. CAPITAL EXPENDITURE ACCOUNT. *Cr.*

19—		Rate.	£	s.	d.	$			Rate.	£	s.	d.	$
Mar.	To Stores A/c . .	10½d.	114	–	–	2,605.71							

Thus, Stores which cost £342 are charged out to various accounts at £342, and not only so, but equal quantities are charged out at equal prices. The results are entirely satisfactory, and show the method adopted to be one eminently suited to the special circumstances.

Balancing the Stores Account. — At balancing time, the first balance to be written in and brought down in the Stores Account will be the balance shown by the *standard figure* columns. This amount will be converted at the current rate of the day into currency figures, and will give the balance to write in and bring down in the currency columns. After this operation, any difference between the *Dr.* and *Cr.* totals of the currency columns is adjusted by a contra transfer to the currency column in the London Office Account. As previously explained, such an entry does not affect the balance of this account. Reference to the worked example which follows will make this paragraph quite clear to the student.

Example 2.—From the following Balance Sheet and summary of transactions, write up the foreign books and balance them. The Revenue items are converted into sterling at the average rate of exchange for each month. The Stores Account is kept in both currency and standard (18d.) dollars.

BRANCH BALANCE SHEET.—31st Dec., 19—

Liabilities.	$	*Assets.*	$
Sundry Creditors	20,000	Bank Balance	12,000
London Office	132,000	Sundry Debtors	50,000
		Stores on hand (50,000 std. 18d. $)	90,000
	152,000		152,000

Rate of Exchange, 31st Dec., $ = 10d.

SUMMARY OF TRANSACTIONS FOR JANUARY.

Stores received from London @ 9d.	£1,500
Stores bought locally	$4,000
Stores used on Revenue Account (standard dollars)	7,500
,, ,, ,, Capital Account (standard dollars)	5,000
Gross Revenue earned	55,000
Wages paid on Revenue A/c	10,000
,, ,, ,, Capital ,,	4,000
Trade Expenses accrued	10,000
Cash received from Debtors	50,000
Cash paid to Creditors	15,000

Remitted to Head Office (Sterling bills on London), Jan. 29th, $20,000 @ 11d.

Average Rate of Exchange for month = 9d. Rate on 31st Jan., $ = 10½d.

In Foreign Books.

JOURNAL.

		Dr.	Cr.
		$	$
Jan. 31	Stores A/c	40,000	
	To London Office A/c . . .		40,000
	for Sales purchased from London, £1,500 @ 9d. = $40,000 = 20,000 Std. 18d. $.		
31	Stores A/c	4,000	
	To Sundry Creditors . . .		4,000
	for Stores purchased locally. $4,000 @ 9d. = $2,000 @ 18d.		
31	Stores Consumed A/c	15,000	
	To Stores A/c		15,000
	for Stores used on Revenue A/c. $7,500 @ 18d. = 15,000 $ at 9d.		
31	Capital Expenditure	10,000	
	To Stores A/c		10,000
	for Stores used on Capital A/c. $5,000 @ 18d. = $10,000 @ 9d. = £375.		
31	Sundry Debtors	55,000	
	To Work Done A/c		55,000
	for gross revenue earned.		
31	Trade Expenses	10,000	
	To Sundry Creditors . . .		10,000
	for expenses accrued.		

Dr. CASH BOOK. *Cr.*

19—		$	19—		$
Dec. 31	To Balance . . .	12,000	Jan. 31	By Wages	10,000
19—			,,	,, Capital Expenditure (@ 9d. = £150) .	4,000
Jan. 31	,, Sundry Debtors . .	50,000	,,	,, Sundry Creditors .	15,000
			,,	,, London Office (@ 11d. = £916 13s. 4d.) .	20,000
			,,	,, Balance c/d . .	13,000
		62,000			62,000
Jan. 31	To Balance b/d . . .	13,000			

LEDGER.

Dr. SUNDRY DEBTORS. *Cr.*

19—			19—		
Dec. 31	To Balance	50,000	Jan. 31	By Cash	50,000
19—			,,	,, Balance c/d . .	55,000
Jan. 31	,, Work Done . . .	55,000			
		105,000			105,000
Jan. 31	To Balance b/d . . .	55,000			

Dr. SUNDRY CREDITORS. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	15,000	Dec. 31	By Balance	20,000
"	" Balance c/d	19,000	19—		
			Jan. 31	" Stores A/c	4,000
			"	" Trade Expenses	10,000
		34,000			34,000
			Jan. 31	By Balance b/d	19,000

Dr. STORES CONSUMED. *Cr.*

19—		$	19—		$
Jan. 31	To Stores A/c	15,000	Jan. 31	By Revenue A/c	15,000

Dr. WORK DONE. *Cr.*

19—		$	19—		$
Jan. 31	To Revenue A/c	55,000	Jan. 31	By Sundry Drs.	55,000

Dr. TRADE EXPENSES. *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Crs.	10,000	Jan. 31	By Revenue A/c	10,000

Dr. WAGES. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	10,000	Jan. 31	By Revenue A/c	10,000

Dr. REVENUE ACCOUNT. *Cr.*

19—		$	19—		$
Jan. 31	To Stores Consumed	15,000	Jan. 31	By Work Done	55,000
"	" Wages	10,000			
"	" Trade Expenses	10,000			
"	" Balance (net profit to London Office A/c @ 9d. = £750)	20,000			
		55,000			55,000

BALANCE SHEET—31ST JAN., 19—.

Liabilities.	$	*Assets.*	$
Sundry Creditors	19,000	Cash at Bank	13,000
London Office A/c (= £6,606 5s. @ 10½d.)	151,000	Sundry Debtors	55,000
		Stores on hand (= 59,500 std. 18d. $)	102,000
	170,000		170,000

Gold Books and Paper Books.—It will be noticed from the previous examples that some transactions take place in gold, *e.g.*, Stores

Dr. STORES ACCOUNT. *Cr.*

19—		Rate.	Std. $	$	19—		Rate.	Std. $	$
Dec. 31	To Balance	10d.	50,000	90,000	Jan. 31	By Stores Consumed	9d.	7,500	15,000
19—					,,	,, Capital Expenditure	9d.	5,000	10,000
Jan. 31	,, London Office	9d.	20,000	40,000	,,	,, Balance c/d	10½d.	59,500	102,000
,,	,, Sundry Crs.	9d.	2,000	4,000	,,	,, London Office A/c (adjustment)			7,000
			72,000	134,000				72,000	134,000
Jan. 31	To Balance b/d	10½d.	59,500	102,000					

Dr. CAPITAL EXPENDITURE. *Cr.*

19—		Rate.	£	s.	d.	$	19—		Rate.	£	s.	d.	$
Jan. 31	To Stores A/c	9d.	375	–	–	10,000	Jan. 31	By Transfer to London Office Account		525	–	–	14,000
,,	,, Wages	9d.	150	–	–	4,000							
			525	–	–	14,000				525	–	–	14,000

Dr. LONDON OFFICE ACCOUNT. *Cr.*

19—		Rate.	£	s.	d.	$	19—		Rate.	£	s.	d.	$
Jan. 29	To Cash	11d.	916	13	4	20,000	Dec. 31	By Balance	10d.	5,500	–	–	132,000
31	,, Capital Expenditure		525	–	–	14,000	19—						
,,	,, Stores A/c (adjustment)					7,000	Jan. 31	,, Stores A/c	9d.	1,500	–	–	40,000
,,	,, Balance c/d	10½d	6,606	5	–	151,000	,,	,, Revenue A/c (net profit)	9d.	750	–	–	20,000
							,,	,, Profit on Exchange		297	18	4	
			8,047	18	4	192,000				8,047	18	4	192,000
							Jan. 31	By Balance b/d	10½d.	6,606	5	–	151,000

bought from the London Office, while others take place in currency, *e.g.*, the local receipts and expenditure. The book-keeping system adopted so far has been to make the double entry of the whole of the transactions only in the local currency, but, by means of memorandum columns, to record the standard equivalent of all items having a gold or standard value, or which have periodically to be converted into gold or standard value. We have now to consider the alternative method that obtains. This is to keep two sets of books abroad, one to record the gold or standard accounts, and the other to record the paper or fluctuating currency accounts. Thus, the Gold Books will contain the Stores Account, the Capital Expenditure Account, and the London Office Account; the Paper Books will contain the Bank Account, the Debtors' and Creditors' Accounts, and the various Receipts and Expenditure Accounts.

"Conversions" or "Permutations" Accounts.—The connection between the two sets of books is established and maintained by means of "Conversions" or "Permutations" Accounts. These are accounts to which are posted all entries in each set of books that affect accounts in the other set of books, *i.e.*, entries in the Paper Books which affect accounts in the Gold Books, and entries in the Gold Books which affect accounts in the Paper Books. For example, in the Paper Books we have no Stores Account; when, therefore, we wish to post an item that affects the Stores Account we must, in the Paper Books, post it to the Conversions Account instead. Again, in the Gold Books we have no Sundry Creditors Account; when, therefore, we wish to post an item that affects the Sundry Creditors Account we must, in the Gold Books, post it to the Conversions Account instead. All items, therefore, that affect accounts in both books will require an entry in each set of books. Thus, suppose Stores are bought locally from Sundry Creditors. If we had only one set of books, the Journal entry would be

Stores Account	*Dr.*
To Sundry Creditors . .	*Cr.*

But when we have two sets of books, two entries will be necessary. In the Paper Books the Journal entry will be

Conversions Account . . .	*Dr.*
To Sundry Creditors . .	*Cr.*

the Conversions Account being debited in place of the Stores Account, which is in the other set of books. In the Gold Books the Journal entry will be

Stores Account	*Dr.*
To Conversions Account . .	*Cr.*

the Conversions Account being credited in place of the Sundry Creditors Account, which is in the other set of books. Many entries, of course, will not go through the Conversions Account at all; for instance, the Journal entry

Stores . . . . . *Dr.*
To London Office . . . *Cr.*

will affect only the Accounts in the Gold Books; again, the Journal entry

Sundry Debtors . . . . *Dr.*
To Work Done Account . . *Cr.*

will affect only the accounts in the Paper Books. All transfers from one set of books to the other must, however, be made through the medium of the Conversions Accounts. Some accountants, it should be noted, prefer to have only one Conversions Account, and to keep it in the Gold Books, the account being provided with double columns on each side, one for standard figures and the other for currency figures. The keeping of two Conversions Accounts, one in each set of books is, however, much simpler and clearer.

Balancing the Conversions Accounts.—At balancing time, the Conversions Account in the Paper Books is balanced and the balance brought down for the new period just like an ordinary Ledger account. In the Gold Books, however, the Conversions Account is balanced in a special manner. First of all, the balance of the Conversions Account in the Paper Books is converted at the current rate into standard figures. These figures are then written in and brought down as the balance of the Conversions Account in the Gold Books. After this operation, any difference between the *Dr.* and *Cr.* totals of the Conversions Account is written off as profit or loss on exchange, a contra entry being made in the London Office Account. Reference to the worked example which follows will clearly illustrate this method of procedure.

Example 3.—Re-work the previous example (No. 2), using two sets of books, Gold Books kept in standard (18d.) dollars, and Paper Books kept in currency dollars.

BALANCE SHEET.—31st Dec., 19—

Liabilities.	$	*Assets.*	$
Sundry Creditors . .	20,000	Bank Balance . .	12,000
London Office A/c . .	132,000	Sundry Debtors . .	50,000
		Stores A/c . . .	90,000
	152,000		152,000

Rate of Exchange, 31st Dec., $ = 10d.

In Paper Books.

JOURNAL.

		Dr.	Cr.
		$	$
19— Dec. 31	Bank	12,000	
	Sundry Debtors	50,000	
	To Sundry Creditors		20,000
	,, Conversions A/c		42,000
	for balances as at this date.		
19— Jan. 31	Conversions A/c	4,000	
	To Sundry Creditors		4,000
	for Stores purchased locally.		
31	Stores Consumed A/c	15,000	
	To Conversions A/c		15,000
	for Stores used on Revenue A/c. $7,500 std. @ 18d. = $15,000 @ 9d.		
31	Sundry Debtors	55,000	
	To Work Done A/c		55,000
	for gross revenue earned.		
31	Trade Expenses	10,000	
	To Sundry Creditors		10,000
	for expenses accrued.		

Dr. CASH BOOK. *Cr.*

		$			$
19— Dec. 31	To Balance	12,000	19— Jan. 31	By Wages	10,000
			,,	,, Conversions A/c (Capital Expenditure)	4,000
19— Jan. 31	,, Sundry Debtors	50,000	,,	,, Sundry Creditors	15,000
			,,	,, Conversions A/c (London Office Remittance)	20,000
			,,	,, Balance c/d	13,000
		62,000			62,000
Jan. 31	To Balance b/d	13,000			

LEDGER.

Dr. SUNDRY DEBTORS. *Cr.*

		$			$
19— Dec. 31	To Balance	50,000	19— Jan. 31	By Cash	50,000
				,, Balance c/d	55,000
19— Jan. 31	,, Work Done	55,000			
		105,000			105,000
Jan. 31	To Balance b/d	55,000			

Dr. SUNDRY CREDITORS. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	15,000	Dec. 31	By Balance	20,000
"	" Balance c/d	19,000	19—		
			Jan. 31	" Stores A/c	4,000
			"	" Trade Expenses	10,000
		34,000			34,000
			Jan. 31	By Balance b/d	19,000

Dr. STORES CONSUMED. *Cr.*

19—		$	19—		$
Jan. 31	To Stores A/c	15,000	Jan. 31	By Revenue A/c	15,000

Dr. WORK DONE. *Cr.*

19—		$	19—		$
Jan. 31	To Revenue A/c	55,000	Jan. 31	By Sundry Debtors	55,000

Dr. TRADE EXPENSES. *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Creditors	10,000	Jan. 31	By Revenue A/c	10,000

Dr. WAGES. *Cr.*

19—		$	19—		$
Jan. 31	To Cash	10,000	Jan. 31	By Revenue A/c	10,000

Dr. CONVERSIONS ACCOUNT. *Cr.*

19—		$	19—		$
Jan. 31	To Sundry Crs.	4,000	Dec. 31	By Balance	42,000
"	" Capital Expenditure	4,000	19—		
"	" London Office A/c (Remittance)	20,000	Jan. 31	" Stores Consumed	15,000
			"	" Revenue A/c (net profit transferred to London Office A/c)	20,000
"	" Balance c/d	49,000			
		77,000			77,000
			Jan. 31	By Balance b/d	49,000

Dr. REVENUE ACCOUNT. *Cr.*

19—		$	19—		$
Jan. 31	To Stores Consumed	15,000	Jan. 31	By Work Done	55,000
"	" Wages	10,000			
"	" Trade Expenses	10,000			
"	" Conversions A/c (net profit transferred to London Office A/c)	20,000			
		55,000			55,000

FINAL BALANCES.—31st Jan.	*Dr.*	*Cr.*
	$	$
Bank Balance	13,000	
Sundry Debtors	55,000	
Sundry Creditors		19,000
Conversions A/c		49,000
	68,000	68,000

In Gold Books.

JOURNAL.		*Dr.*	*Cr.*
19—		Std. $	Std. $
Dec. 31	Stores A/c	50,000	
	Conversions A/c	23,333	
	To London Office A/c (say)		73,333
	for balances as at this date.		
19—			
Jan. 31	Stores A/c	20,000	
	To London Office A/c		20,000
	for Stores purchased from London. £1,500 = $20,000 @ 18d.		
31	Stores A/c	2,000	
	To Conversions A/c		2,000
	for Stores purchased from Creditors. $4,000 @ 9d. = $2,000 @ 18d.		
31	Conversions A/c	7,500	
	To Stores A/c		7,500
	for Stores used on Revenue A/c.		
31	Capital Expenditure	5,000	
	To Stores A/c		5,000
	for Stores used on Capital A/c.		
31	Capital Expenditure	2,000	
	To Conversions A/c		2,000
	for Wages paid on Capital A/c. $4,000 @ 9d. = $2,000 @ 18d.		
31	London Office A/c	12,222	
	To Conversions A/c		12,222
	for Remittance to London. $20,000 @ 11d. = $12,222 (say) @ 18d.		
31	Conversions A/c	10,000	
	To London Office A/c		10,000
	for net profit. $20,000 @ 9d. = $10,000 @ 18d.		

LEDGER.

Dr. STORES ACCOUNT. *Cr.*

19—		Std. $	19—		Std. $
Dec. 31	To Balance	50,000	Jan. 31	By Conversions A/c	7,500
19—			,,	,, Capital Expenditure	5,000
Jan. 31	,, London Office A/c	20,000	,,	,, Balance c/d	59,500
,,	,, Conversions A/c (Sundry Crs.)	2,000			
		72,000			72,000
Jan. 31	To Balance b/d	59,500			

Dr. CAPITAL EXPENDITURE. *Cr.*

19—		Std $	19—		Std $
Jan. 31	To Stores A/c	5,000	Jan. 31	By Transfer to London Office A/c	7,000
,,	,, Conversions A/c (Wages)	2,000			
		7,000			7,000

Dr. LONDON OFFICE ACCOUNT. *Cr.*

19—		Std $	19—		Std $
Jan. 31	To Conversions A/c (Remittance)	12,222	Dec. 31	By Balance	73,333
,,	,, Transfer from Capital Expenditure A/c	7,000	19— Jan. 31	,, Stores A/c	20,000
,,	,, Balance c/d	88,083	,,	,, Conversions A/c (net profit)	10,000
			,,	,, Profit on Exchange	3,972
		107,305			107,305
			Jan. 31	By Balance b/d	88,083

Dr. CONVERSIONS ACCOUNT. *Cr.*

19—		Std $	19—		Std $
Dec. 31	To Balance	23,333	Jan. 31	By Stores A/c	2,000
19—			,,	,, Capital Expenditure	2,000
Jan. 31	,, Stores A/c	7,500	,,	,, London Office A/c (Remittance)	12,222
,,	,, London Office A/c (net profit)	10,000	,,	,, Balance (as per Paper Books, $49,000 @ 10½d.) c/d	28,583
,,	,, Profit on Exchange	3,972			
		44,805			44,805
Jan. 31	To Balance b/d	28,583			

FINAL BALANCES.—31ST JAN. *Dr.* *Cr.*

	Std. $	Std. $
Stores A/c	59,500	
London Office		88,083
Conversions A/c	28,583	
	88,083	88,083

QUESTIONS ON CHAPTER XVII.

A.

1. How are Branch Accounts divided? What subdivisions are there?
2. What entries are made when a Branch is opened and goods transferred thereto from stock? Is it correct to treat such a transfer as a sale?
3. Submit rulings of a "Branch Supplies Book," and explain its use.
4. In what three ways are goods invoiced to branches?
5. What object is sought by invoicing goods to branches at selling price? Explain the term "multiple shop system."
6. Explain the method of dealing with Branch receipts and payments.
7. Explain the term "Branch Returns." What do they comprise in the case of a branch doing (1) only a cash business, (2) both cash and credit business?
8. How may the invoice price be reduced to cost when a known percentage has been added? Give examples.
9. Explain the object of double money columns in the Ledger records of Branch Accounts.
10. Explain and illustrate the use of a Branch Adjustment Account.

B.

1. What methods are there of dealing with the record of *credit* sales in the case of Branches?
2. How is depreciation dealt with in Branch Accounts?
3. How are variations in the selling price (according to quantity taken) dealt with in Branch Accounts where the goods have been invoiced to the Branch at selling price?
4. Explain and illustrate the use of "Monthly Stock Accounts."
5. Explain the method of keeping the accounts in the case of *wholesale* branches.
6. How is the buying usually done in wholesale branches? How are goods sold usually invoiced?
7. What difference is there in the book-keeping where branches keep their own books?
8. Explain the nature and *modus operandi* of the "Head Office Account."
9. Explain and illustrate the use of a "Remittance Account."
10. Explain and illustrate the method of dealing with goods and remittances *in transit*.

C.

1. What is meant by "inter-branch" transactions? How are they dealt with? Do the "inter-branch" balances affect the final Balance Sheet?
2. Define the term "foreign exchange."
3. Explain the meaning of the following: currency, metallic currency paper currency, unit of currency, sterling.
4. What is meant by "rate of exchange"?
5. Explain briefly what is meant by "mint par of exchange" and how it is ascertained.
6. How do you account for varying rates of exchange? What is meant by rates being *favourable to* or *against* a country?
7. Give a brief account of the "gold points" and their effect on the rates of exchange.
8. In what two ways are rates of exchange quoted? Give examples.
9. Make out a concise list of the principal moneys of foreign countries, and give their approximate value in English money.

10. How is currency converted into sterling? Give examples. Find the value in sterling of 47,884.75 francs @ 25·29½, and prove your answer by re-converting it into currency, modern methods of working to be adopted in each case.

D.

1. Explain the method of constructing Tables (of nine multiples) for converting sterling into currency. Give examples.
2. Explain the method of constructing Tables (of nine multiples) for converting currency into sterling. Give examples.
3. Using the Tables given in the preceding pages, exchange the following :—
(*a*) £225 14s. 7d. into francs and centimes @ 25·22 francs to the £.
(*b*) £317 8s. 10d. into marks and pfennigs @ 20·43 marks to the £.
(*c*) £484 19s. 2d. into roubles and copecks @ 25d. per rouble.
(*d*) £609 10s. 5d. into rupees and annas @ 16d. per rupee.
Prove your answer by re-converting it into sterling, adopting modern methods of working.
4. Using the Tables given in the preceding pages, exchange the following :—
(*a*) 2,708 marks 58 pfennigs into sterling @ 20·43 marks to the £.
(*b*) 8,079 francs 46 centimes into sterling @ 25·22 francs to the £.
(*c*) 26,918 roubles 29 copecks into sterling @ 25d. per rouble.
(*d*) 18,579 milreis into sterling @ 15½d. per milreis.
5. What are the special features of "foreign" branches?
6. What rate of exchange is adopted for conversion of foreign branch accounts into sterling?
7. In the case of a foreign country with a very fluctuating rate of exchange, what different rates are used in the conversion of accounts, and why?
8. Explain the method of procedure in the Head Office Books as regards the record of the Branch transactions.
9. What is meant by the term "Difference in Exchange"? How does it arise? In what two different ways is it dealt with in the accounts?
10. How is depreciation of fixed assets dealt with in the case of foreign branches?

E.

1. Explan the method of keeping the accounts in the case of a Head Office, say in London, owning a foreign mine or plantation. Submit specimens of any special rulings of books that might be necessary.
2. Name and explain some of the principal forms of foreign remittances.
3. How are transactions in currency dealt with in books of account kept in sterling? Give examples.
4. Explain the method of converting accounts kept in a fluctuating paper currency into sterling.
5. How is Capital Expenditure at the Branch dealt with (*a*) in the foreign books, (*b*) in the London Office books?
6. How are remittances from the Branch to the Head Office dealt with (*a*) in the foreign books, (*b*) in the London books?
7. How should Stores Accounts be kept in a country where there is a violently fluctuating paper currency? What are the disadvantages of keeping such Stores Accounts in the local currency?
8. "Stores Accounts should be kept on a gold basis." Outline briefly this method of procedure. What are its advantages?
9. How is the Stores Account balanced when it has been kept in both standard and currency figures? Give an example.
10. What are "Conversions" or "Permutations" Accounts? Explain briefly the method of working and balancing them (*a*) in the Paper Books, (*b*) in the Gold Books

EXERCISE XVII.

1. On 1st March, a branch establishment was opened and £850 worth of goods was transferred thereto from stock. Show the Ledger accounts recording this transaction.

2. From the following particulars prepare the Branch Account as it would appear in the Head Office books. The Branch sales are exclusively cash, and the goods sent to the Branch have been invoiced at cost price :—

	£	s.	d.
Goods from Head Office	5,508	15	4
Returns to Head Office	42	10	9
Rates, Taxes, and Insurance paid	65	11	9
Wages paid	362	5	8
Cash remitted to Head Office	6,871	16	8
Stock, 1st Jan.	816	10	2
Rent paid	140	10	6
Stock, 31st Dec.	795	15	4
Sundry Expenses paid	81	4	3

3. From the particulars furnished hereunder, write up the Branch Account in the Head Office books. The Branch Sales are exclusively cash, and the goods sent to the Branch have been invoiced at 33⅓ per cent. on cost :—

	£	s.	d.
Goods sent to Branch *less* Returns	6,841	19	4
Wages and Salaries paid	372	6	9
Cash remitted by Branch	6,855	–	8
Stock, 1st Jan.	920	16	8
Rates, Taxes, and Insurance paid	80	10	4
Rent paid	145	15	6
Stock, 31st Dec.	895	15	4
Sundry Expenses paid	39	14	11

Show, in connection with the above exercise, (*a*) the advantage of double money columns, (*b*) how the books are reconciled when the Branch Account is written up from the above figures exactly as they stand.

4. From the particulars given below, draw up the Branch Account or Accounts in the Head Office books. The goods sent to the Branch have been invoiced at cost, and the Branch makes both cash and credit sales :—

	£	s.	d.
Goods received from Head Office	2,517	16	8
Returns to Head Office	42	–	–
Stock, 1st Jan.	625	13	4
Ready Money Sales	1,608	11	5
Six months' Credit Sales to 30th June	2,976	14	2
Allowances to Customers	13	8	11
Discounts Allowed to Customers	132	5	6
Bad Debts	218	6	3
Rent, Rates, and Taxes	108	12	7
Returns from Customers	28	11	4
Wages and Salaries	294	6	8
Debtors, 1st Jan.	1,475	9	10
Stock, 30th June	595	15	6
Sundry Expenses	63	12	5
Cash received on Ledger Accounts	2,516	14	2
Debtors, 30th June	1,542	17	10

5. From the undermentioned particulars construct the Branch Accounts as they would appear in the Head Office books. The Branches are charged with the goods at selling price, the sales being exclusively cash. The rate of gross profit is 25 per cent. on selling price.

	Branch A.			Branch B.		
	£	s.	d.	£	s.	d.
Goods from Head Office	9,846	12	4	10,408	15	8
Returns to Head Office	28	9	4	46	11	8
Sales by Branch	9,662	2	–	10,183	8	8
Stock, 1st Jan.	1,338	3	4	1,672	12	4
Stock, 31st Dec.	1,476	12	4	1,814	12	8
Allowances off Selling Price	29	16	8	26	10	4
Sundry Expenses	80	12	4	139	16	5
Salaries and Wages	248	15	6	318	13	2
Depreciation of Furniture and Fixtures	24	13	9	35	17	1
Rent, Rates, and Taxes	250	16	8	296	14	8
Excess in Stock at close	12	4	8		—	
Shortage in Stock at close		—		10	4	8

6. The Stock on 1st March was £3,027 16s. 11d. The Sales for the month of March amounted to £1,543 10s. 9d., and the Returns Outwards were £28 9s. 1d. The Purchases for the month of March were £892 19s. 6d., while the Returns Inwards amounted to £37 15s. 4d. The rate of gross profit is 20 per cent. on Sales. Show by means of an account how to arrive at the approximate value of the Stock at the end of March.

7. From the undermentioned particulars relating to a Head Office and its two wholesale Branches, prepare final accounts and Balance Sheet as they would appear in the Head Office books :—

	Head Office.			Liverpool Branch.			Reading Branch.		
	£	s.	d.	£	s.	d.	£	s.	d.
Stock, 1st Jan.		—		4,807	13	9	3,946	15	7
Debtors		—		16,915	11	7	13,482	9	10
Creditors	8,216	15	9		—			—	
Discounts Earned		—		513	15	8	398	16	2
Bad Debts		—		607	14	9	550	18	6
Bills Payable	2,514	11	2		—			—	
Purchases *less* Returns		—		11,918	14	4	9,867	13	9
Furniture, Fixtures, and Fittings	157	13	2	365	16	2	225	15	8
Horses, Harness, Vehicles, etc.		—		1,956	13	8	1,698	12	11
Salaries	987	16	2		—			—	
Cash at Bank	8,916	9	3		—			—	
Share Capital (22,000 Shares of £1 each, fully paid)	22,000	–	–		—			—	
Travellers' Salaries and Expenses		—		1,814	5	10	1,328	13	7
Directors' Fees	450	10	6		—			—	
Sales *less* Returns		—		26,156	18	3	21,546	15	10
Wages		—		2,386	18	4	1,846	15	9
Interim Dividend 10%	2,200	–	–		—			—	
Stock, 31st Dec.		—		5,016	14	8	4,028	11	5
Debenture Interest	600	–	–		—			—	
Reserve Fund Account		—		7,500	–	–		—	
Discounts Allowed		—		1,605	10	2	1,572	14	8
6% Debentures	10,000	–	–		—			—	
Carriage Inwards		—		509	12	8	457	11	6
Depreciation	17	10	4	40	12	11	25	1	9
Sundry Expenses		—		3,017	14	11	2,856	11	5
Rent, Rates, and Taxes	287	14	6	382	10	6	298	10	6
Horse and Stable Expenses		—		327	3	7	246	9	10
Cash in hand	39	16	7	72	19	5	55	14	6

Reserve for Bad Debts, 5% Debtors.

8. From the following condensed Trial Balance prepare amalgamated Balance Sheet as at 31st Dec.

HEAD OFFICE TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Sundry Assets	12,317	4	2			
Sundry Creditors				3,017	15	6
Capital Account				12,000	–	–
Branch Current A/c (£250 of this is for Goods sent on 31st Dec.)	3,960	11	4			
Remittances from Branch				1,260	–	–
	16,277	15	6	16,277	15	6

BRANCH TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Sundry Assets	2,847	10	9			
Sundry Creditors				456	19	5
Head Office Current A/c				3,710	11	4
Remittances to Head Office (£60 of this represents a Remittance made on 31st Dec.)	1,320	–	–			
	4,167	10	9	4,167	10	9

9. From the following Trial Balance of the Branch books, prepare the necessary Journal entries to incorporate the figures in the Head Office books, and show the final accounts in the Branch ledger and also in the Head Office ledger.

BRANCH TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Horses and Carts	256	14	2			
Furniture and Fixtures	75	18	9			
Sundry Debtors	847	13	5			
Sundry Creditors				154	12	6
Stock, 1st Jan.	675	11	2			
Purchases from Head Office	2,916	16	7			
Sales				4,462	16	8
Discounts Earned				10	14	11
Rent, Rates, and Taxes	92	15	3			
Sundry Expenses	65	11	7			
Depreciation	30	14	5			
Head Office Account, 1st Jan.				3,516	16	6
Cash in hand	187	5	10			
Carriage Inwards	84	7	9			
Wages and Salaries	428	13	11			
Bad Debts	35	18	5			
Remittances to Head Office	2,360	–	–			
Discounts Allowed	86	19	4			
	8,145	–	7	8,145	–	7

Stock, 31st Dec., £710 15s. 8d.

10. Three partners, F. Finch, G. Green, and R. Roberts, have Branch businesses working independently in London, Edinburgh, and Dublin. F. Finch manages the London business and receives two-thirds of the profits therefrom, the balance being shared equally between Green and Roberts. Green manages the Edinburgh business, receiving half of the profits therefrom, the balance being shared equally between Finch and Roberts. Roberts manages the Dublin business, receiving one-third of the profits therefrom, the balance being shared equally between Finch and Green. The branches buy from, and sell to, one another at a small inter-branch profit.

From the following Trial Balances draw up a Tabular Trading and Profit and Loss Account, and a Balance Sheet in (*a*) columnar form, (*b*) ordinary form. Credit each partner with interest on Capital at 5 per cent. per annum, and depreciate Plant and Machinery at the rate of 10 per cent. per annum. Show also the partners' Capital Accounts, and the Branch Current Accounts in the respective Branch ledgers.

LONDON TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Plant and Machinery	5,616	11	5			
Cash in hand	216	18	7			
Cash at Bank	7,808	10	6			
Current Accounts—						
Edinburgh	2,386	14	5			
Dublin	2,017	18	9			
Stock, 1st Jan.	6,174	10	7			
Sundry Debtors	12,206	13	4			
Sundry Creditors				8,165	19	10
Purchases	37,856	19	5			
,, from Branches	3,047	8	10			
Sales				54,719	11	8
,, to Branches				4,028	16	8
Capital Account, F. Finch				20,646	15	7
Drawing Account, F. Finch	3,000	–	–			
Trade Expenses	197	14	11			
Wages	3,814	3	9			
Discounts Allowed	627	16	8			
Discounts Earned				497	13	10
Printing and Stationery	256	17	5			
Advertising	297	12	3			
Carriage Inwards	564	13	8			
,, Outwards	925	14	9			
Salaries	732	19	11			
Bad Debts	308	18	5			
	88,058	17	7	88,058	17	7

Stock, 31st Dec., £6,285 11s. 3d.

EDINBURGH TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Plant and Machinery	4,406	11	10			
Cash in hand	115	9	7			
Cash at Bank	5,219	12	6			
Current Accounts—London				2,386	14	5
Dublin	1,027	12	8			
Stock, 1st Jan.	4,629	15	4			
Sundry Debtors	9,847	13	6			
Sundry Creditors				5,028	17	11
Purchases	29,085	17	2			
,, from Branches	2,875	14	9			
Sales				40,207	13	6
,, to Branches				3,318	15	9
Capital Account, G. Green				14,172	10	5
Drawing Account, G. Green	2,500	–	–			
Trade Expenses	134	13	7			
Wages	2,675	11	5			
Discounts Allowed	457	9	8			
Discounts Earned				384	13	6
Printing and Stationery	229	16	5			
Advertising	236	18	9			
Carriage Inwards	425	9	10			
Carriage Outwards	814	4	11			
Salaries	596	18	4			
Bad Debts	219	15	3			
	65,499	5	6	65,499	5	6

Stock, 31st Dec., £4,752 18s. 6d.

DUBLIN TRIAL BALANCE.

31st Dec., 19—	Dr.			Cr.		
Plant and Machinery	3,417	15	2			
Cash in hand	89	11	8			
Cash at Bank	4,723	16	7			
Current Accounts—London				2,017	18	9
Edinburgh				1,027	12	8
Stock, 1st Jan.	3,852	19	4			
Sundry Debtors	8,806	14	5			
Sundry Creditors				3,351	3	5
Purchases	24,678	10	2			
,, from Branches	2,359	11	6			
Sales				34,447	16	9
,, to Branches				3,028	5	10
Capital Account, R. Roberts				10,276	14	3
Drawing Account, R. Roberts	2,000	–	–			
Trade Expenses	86	18	4			
Wages	2,075	16	3			
Discounts Allowed	357	9	10			
Discounts Earned				307	10	6
Printing and Stationery	126	17	5			
Advertising	195	6	4			
Carriage Inwards	397	11	7			
,, Outwards	692	15	8			
Salaries	438	14	2			
Bad Debts	156	13	9			
	54,457	2	2	54,457	2	2

Stock, 31st Dec., £3,972 16s. 4d.

11. The London and Westminster Grocery Co., Ltd., has a retail Branch in Manchester which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the imprest system.

From the undermentioned particulars supplied by the Branch manager, show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to 31st Dec. :—

Six months' Credit Sales	£2,387	Debtors, July 1st	£1,227
Returns Inwards	20	Goods received from Head Office	2,178
Cash received on Ledger A/cs	2,384	Rent, Taxes, etc., paid	375
Cash Sales	1,214	Wages and Sundry Expenses paid	396
Stock, July 1st	720		
Stock, Dec. 31st	1,121		

—(*London Chamber of Commerce.*)

12. Four partners, A, B, C, and D, have businesses working independently in London, Swansea, and Glasgow. A and B manage the London branch, each receiving one-third of the profits from the London business, the balance being shared equally between C and D.

C manages the Swansea house, receiving half of the profits from the business there, the balance being shared equally between A, B, and D.

D manages the Glasgow business, receiving one-third of the profits arising therefrom, the balance being shared equally between A, B, and C.

At the end of each year a combined statement is prepared showing the general position of the firm and the condition of each partner's account.

From the following separate statements make up the combined account (without interest) and also the general Balance Sheet of the firm.

LONDON HOUSE.

Creditors	£15,000	Debtors	£23,000
Swansea House	3,000	Glasgow House	2,000
A's Capital	10,000	Stock	13,000
B's do.	10,000	A's Drawings	1,000
Profit and Loss	9,000	B's do.	1,000
		Cash	7,000
	£47,000		£47,000

SWANSEA HOUSE.

Creditors	£9,000	Debtors	£11,000
Glasgow House	4,000	London House	3,000
C's Capital	5,000	Stock	3,000
Profit and Loss	6,000	C's Drawings	1,000
		Cash	6,000
	£24,000		£24,000

GLASGOW HOUSE.

Creditors	£7,500	Debtors	£9,000
London House	2,000	Swansea House	4,000
D's Capital	5,000	Stock	5,000
Profit and Loss	7,200	D's Drawings	500
		Cash	3,200
	£21,700		£21,700

—(*Chartered Accountants.*)

13. Messrs. J. Silkstone & Sons, coal merchants, of London, opened a Branch business at Maidstone, on 1st January. The Trial Balance of the books of the Maidstone Branch, as on 31st December, was as follows:—

TRIAL BALANCE.

Head Office Adjustment A/c		£1,574
Coal Sales		1,750
Sundry Debtors	£640	
Horses, Carts, etc.	280	
Salaries, Rent, and Expenses	620	
Cash in Hand	78	
Coal from Head Office (as invoiced)	1,748	
Sundry Creditors		42
	£3,366	£3,366

The stock of coal at Maidstone on 31st December was valued at £984.

Prepare a Profit and Loss A/c showing the result of the working of the Maidstone Branch for the year ended 31st December, and draft the entries necessary to incorporate the above figures in the Head Office books.—(*London Chamber of Commerce.*)

14. B. J. R. & Co. are the owners of a business, working upon the multiple shop system. No Branch is allowed to purchase any stock, and can only make payments in cash through their petty cash account, which is replenished weekly upon the "imprest system." All receipts are paid daily into the local bank, upon which the Head Office alone can draw.

Upon what basis should goods be stocked out to the Branches.

Explain briefly the records which the Head Office books would show in the case of each Branch.—(*Royal Society of Arts: Accounting and Banking.*)

15. Messrs. Baxter & Sons, whose head office is in London, remitted £500 to their Manchester Branch on 30th December. The books of the Head Office and the Branch are balanced as on 31st December each year. The above-mentioned remittance did not reach Manchester until the morning of 1st January. How would you deal with the amount in question in the Trial Balances of the Head Office and Branch and when preparing the combined Balance Sheet of the whole business?—(*London Chamber of Commerce.*)

16. The Head Office of the Surrey Dairies, Ltd., supplied their Branches

for 6 months ended 31st Dec., with the following goods, and paid cash on their account as under :–

Branch.	K.	P.	Q.
	£	£	£
Goods to Depots	700	600	900
Returns from Depots	10	9	21
Rates and Taxes paid by Head Office	31	29	40
Wages and Expenses paid by Head Office	39	40	45
The Depot Sales were	1,000	900	1,350
Returns from customers were	50	36	60
Depots collected cash from customers and despatched same to head office	850	720	1,200
The stocks on hand at 31st Dec. were	100	120	110

Frame the proper Journal entries to record the above transactions in the Head Office books, and

Write up in the Head Office ledger the accounts necessary to show the profit or loss made by each Branch and the balance due at each Branch from Sundry Debtors.—(*Civil Service, 2nd Division Clerks.*)

17. The Manufacturing Co., Ltd., has a Nominal Capital of 15,000 shares of £10 each ; and a Subscribed Capital of 8,000 shares, fully paid up. It manufactures goods for sale at its two Branches, A and B, which sell no goods other than those of the Company's manufacture. From the Trial Balance, on next page, extracted from the books of the Head Office and Branches as on 31st Dec., prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended 31st December, and a Balance Sheet of the Company as a whole as on that date.

Stocks on hand valued as on 31st December were :—

Head Office	£10,527	4	5
Branch A	3,024	12	1
do. B	1,927	9	4

Write off the following depreciations :—

Head Office Plant and Machinery	10%
Furniture and Fixtures—Head Office	5%
do. do. Branch A	5%
do. do. Branch B	5%

Create a reserve for Bad Debts of 2½% on the Sundry Debtors. Write off £5,000 from Goodwill and carry £10,000 to Reserve. All carriage on the goods sent to the Branches is paid by the Head Office.—(*Royal Society of Arts.*)

18. The X Y Z Manufacturing Co., Ltd., has a Share Capital of £75,000, in 7,500 shares of £10 each, all issued and fully paid. It manufactures goods for sale at its two Branches (here referred to as A and B respectively), which sell goods of the Company's manufacture only. From the annexed Trial Balance of the books at the Head Office (where the Private or General Books are kept) and at the Factory and Branches (*see* pp. 724–5), construct an account to show, respectively, the result of the Manufacturing and the Gross Profit at each Branch.

Notes.—The Stocks on the 31st December were :—

Factory	£9,177	5	7
Branch A	4,590	3	8
,, B	1,922	5	5

Allow depreciation for one year to 31st December on the following items of the 1st January at the rates indicated :—

Factory Machinery, etc.	10 per cent.
Branch Fixtures, etc.	5 ,,

(No depreciation to be written off Head Office Furniture, etc.)

(EXERCISE 17)

THE MANUFACTURING COMPANY, LIMITED.

TRIAL BALANCE.—31st DEC., 19—

Dr. *Cr.*

	Head Office.	Branch A.	Branch B.
Freehold Premises—			
Head Office	40,000 – –		
Branch A	10,000 – –		
Branch B	10,000 – –		
Goodwill	30,000 – –		
Plant and Machinery, Head Office	8,000 – –		
Furniture and Fixtures—			
Head Office	500 – –		
Branch A	700 – –		
Branch B	800 – –		
Cash at Bank	6,790 1 6		
Cash in hand	14 7 2	83 2 9	38 9 5
Stock in hand, 1st Jan.	11,245 5 1	2,812 3 7	1,994 17 6
Purchases (less Returns)	65,090 5 11		
Wages	39,651 1 11	2,419 – –	2,622 3 4
Salaries	1,500 – –	247 14 4	276 6 6
Carriage to Branches	1,516 14 7		
Rates and Taxes	323 2 9	442 6 7	328 14 4
General Expenses	517 9 2	2,016 4 6	1,796 6 8
Goods from Head Office		94,167 2 3	44,267 – 2
Bad Debts		1,552 8 2	746 17 11
Sundry Debtors		9,620 2 9	5,370 3 2
[1] Income Tax	447 10 8		
[1] Directors' Fees	1,000 – –		
[1] Audit Fee	105 – –		
Branch A Current A/c	301 18 3		
Branch B do.	3,353 – 8		
	231,855 17 8	113,360 4 11	57,440 19 –

	Head Office.	Branch A.	Branch B.
Share Capital	80,000 – –		
Sundry Creditors	11,247 13 2	541 6 6	547 12 1
Goods to Branch A	94,167 2 3		
Do. do. B	44,267 – 2		
Sales (less Returns)		112,517 – 2	53,540 6 3
Profit and Loss A/c (balance)	2,174 2 1		
Head Office Current Account		301 18 3	3,353 – 8
	231,855 17 8	113,360 4 11	57,440 19 –

[1] *No* apportionment of these items need be made.

(EXERCISE 18)

Dr. TRIAL BALANCE.

	Head Office.	Factory.	Branch A.	Branch B.
Freehold Premises—				
Factory	50,000 — —			
Branch A	10,000 — —			
Branch B	10,000 — —			
Goodwill	30,000 — —			
Machinery, Fixtures, Furniture, etc., as at 1st January—				
Head Office	500 — —			
Factory	7,500 — —			
Branch A	2,000 — —			
Branch B	1,500 — —			
Bankers	6,790 1 6			
Cash Balance	16 2 6	135 9 2	89 3 2	58 1 8
Stocks (1st Jan)		10,216 5 9	3,218 1 6	2,190 6 7
Purchases (Net)		76,516 2 9		
Wages		41,316 2 8		
Factory Manager's Salary		1,000 — —		
Salaries and Wages			3,516 9 6	3,022 3 4
Carriage to Branches		2,517 6 9		
Rates and Taxes		316 2 9	569 7 6	452 9 2
Salaries and Office Expenses	3,519 6 8			
Sundry Expenses		517 6 8	3,017 9 2	1,869 4 6
Goods from Factory			75,267 3 2	45,350 — 2
Bad Debts			679 8 1	1,029 2 2
Debtors			9,620 2 9	5,730 2 3
Factory (Current Account)	2,333 1 11			
Branch B " "	3,672 3 10			
Head Office " "			4,914 3 3	
Income Tax	650 — —			
Directors' Fees	1,500 — —			
Auditors' Fees	105 — —			
Debenture Interest	2,000 — —			
	132,085 16 5	132,534 16 6	100,891 8 1	59,701 9 10

Draw for submission to the Directors a Balance Sheet of the X Y Z Manufacturing Co., Ltd., on the basis of the figures given, also to show as regards each item, its amount at the several places separately, and for the business as a whole. The balance at credit of the Profit and Loss Account was £13,033 6s. 5d., including the amount brought from the preceding year. —(*Chartered Accountants.*)

19. The United Kingdom Trading Co., Ltd., has Branches at Dundee and Dover with Head Office at York. No trading is done at the Head Office. The Branches each keep a separate set of books which contain a complete record of their trading. The Capital Accounts and Bank Account are kept in another set of books at Head Office, the Branches being supplied with working capital from Head Office. From the following Trial Balances supplied by the Branches, and the Trial Balance of the Head Office books, prepare a Trading Account, showing the trading result of each branch, also a general Profit and Loss Account for the year ending 31st March and the Balance Sheet of the Company.

Reserve for Bad and Doubtful Debts, £250.
Reserve for Discount, 2½% on Debtors.
Wages owing, £125.
Stock, at 31st March, £2,960 17s. 9d.
Credit Southern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £3,500 to be charged in Branch Trading A/c.

31ST DECEMBER, 19—

	Head Office.			Factory.			Branch A.			Branch B.		
Share Capital	75,000	–	–									
Debentures Four per Cent.	50,000	–	–									
Creditors	550	10	–	9,584	11	3	176	7	6	359	2	6
Goods to Branch A				75,267	3	2						
,, ,, B				45,350	–	2						
Sales							100,715	–	7	55,670	3	6
Profit and Loss (Balance of previous years' Profit)	1,621	3	2									
Head Office (Current Account)				2,333	1	11				3,672	3	10
Branch A (Current Account)	4,914	3	3									
	132,085	16	5	132,534	16	6	100,891	8	1	59,701	9	10

NORTHERN BRANCH.

TRIAL BALANCE.—31ST MARCH, 19—

	Dr.			*Cr.*		
Head Office A/c (Amount due for Working Capital)				2,663	5	4
Trading Account, Stock, 1st April	2,879	2	3			
Purchases	8,368	4	5			
Sales				15,872	13	6
Trade Expenses	754	10	–			
Wages	3,370	13	4			
Salaries	290	–	–			
Rates, Rent, and Taxes	455	–	–			
Debtors	3,784	–	6			
Creditors				1,533	17	11
Discount A/c	67	15	10			
Returns and Allowances	100	10	5			
	£20,069	16	9	£20,069	16	9

SOUTHERN BRANCH.

TRIAL BALANCE.—31st March, 19—

	Dr.			Cr.		
Head Office A/c (Amount due for Working Capital)				2,151	8	9
Trading A/c, Stock, 1st April	1,397	14	6			
Purchases	3,512	18	9			
Sales				8,806	12	2
Trade Expenses	474	2	8			
Wages	2,860	1	7			
Rent, Rates, and Taxes	274	3	6			
Debtors	2,960	7	2			
Creditors				662	4	9
Discount A/c				34	2	6
Salaries	175	–	–			
	£11,654	8	2	£11,654	8	2

Reserve for Discount 2½% on Debtors.
Reserve for Bad Debts, £125.
Expenses owing, £75.
Stock of 31st March, £1,564 10s. 2d.
Debit Northern Branch, 2½% allowance on £1,850.
Depreciation of Plant, 7½% on £2,500 to be charged in Branch Trading A/c.

HEAD OFFICE.

TRIAL BALANCE.—31st March, 19—

	Dr.			Cr.		
Share Capital Issued, 13,000 Shares of £1 each				13,000	–	–
Calls in arrear	245	–	–			
4½% Debenture Stock				5,000	–	–
Plant & Machinery, Northern Branch	3,500	–	–			
„ „ Southern „	2,500	–	–			
Goodwill, Northern Branch	3,000	–	–			
„ Southern „	2,500	–	–			
Bank	2,661	11	9			
Expenses (Head Office)	460	9	2			
Reserve Fund A/c				4,000	–	–
Profit and Loss A/c				500	–	–
£3,000 2½% Consols @ 80% (Reserve Fund Investment)	2,400	–	–			
Rent, Rates, Taxes, and Insurance	249	10	–			
Northern Branch A/c	2,663	5	4			
Southern „	2,151	8	9			
Debenture Interest A/c (paid to 30th Sept. last)	112	10	–			
Bank Charges	56	5	–			
	£22,500	–	–	£22,500	–	–

Expenses owing, £55.
Interest due on Consols, 3 mos. less Tax @ 1s. 2d.
Directors' Fees owing, £750.
Prepaid Rates, £32.—(*West Riding of Yorkshire.*)

20. A Company, having its Head Office in London, owns a factory in South Africa. During the year £10,000 in cash has been remitted from London to the factory, and bills for £5,000, drawn by the manager in South Africa on the Head Office, have been accepted. At the end of the year it is found that there has been a loss on the working of the factory of £2,000, which is transferred to the Head Office. Show the entries in the Head Office books recording these transactions.—(*Chartered Accountants.*)

21. A Limited Company has its Head Office in London, and a number of retail shops in various towns, to which all goods are invoiced from the Head Office at selling prices. What system would you recommend for dealing with these Branches, and how would the stocks at the Branches appear in the Balance Sheet of the Company? Give a *pro formâ* example, stating the class of business you select for the purpose.—(*Chartered Accountants.*)

22. The Southern Confectionery Co., Ltd., London, has a Branch at Bristol. Goods are invoiced to the Bristol Branch at selling prices, being cost plus 25 per cent. The Bristol Branch keeps its own Sales Ledger and transmits all cash received to London daily. All expenses are paid from London.

From the following details prepare a Profit and Loss Account of the Bristol Branch for the year.

Stock, 1st Jan. (at invoice prices)	£1,250	Cash received for Ledger A/cs	£3,300
Stock, 31st Dec. (at invoice prices)	1,500	Goods invoiced from London	9,100
Sundry Debtors, 1st Jan.	700	Rent and Rates (paid from London)	400
Sundry Debtors, 31st Dec.	900	Wages (paid from London)	340
Cash Sales for the year	5,400	Sundry Expenses (paid from London)	80
Credit Sales for the year	3,500		

—(*Chartered Accountants.*)

23. Compile the Profit and Loss Account for the year to 31st December, and the Balance Sheet (as on that date) of the A.B. Merchant Trading Co., Ltd., from (*a*) London Trial Balance and (*b*) Brazil Trial Balance, combined:—

(*a*)

Share Capital (Nominal £100,000). Issued 5,000 5% Preference Shares of £10 each, £5 called up and paid, and 50,000 Ordinary Shares of £1 each, 10s. called up and paid £50,000

London Factory	£10,000	Sales, Brazil shipments	£80,000
Sundry Debtors	300	Stock, 1st Jan.	15,000
Directors' Fees	500	Brazil Remittances *Cr.*	78,000
Salaries	850	Brazil Local Office	113,700
Office Rent and Expenses	150	Sundry Creditors	4,000
Office Furniture	300	Bank	2,550
Outstanding Expenses *Cr.*	150	Bills Receivable	10,000
Purchases	60,000	Profit and Loss A/c *Cr.*	1,200

(*b*)

Head Office, London	*Cr.* £35,700	Salaries	£2,500
Sales	105,000	Landing Charges	8,000
Goods from London	80,000	Bank	2,000
Factory Building and Furniture	6,000	Sundry Debtors	27,000
Purchases	3,000	Stock, 1st Jan.	12,000
Sundry Creditors	1,500	Office Expenses	1,700

The Stocks on 31st Dec. are given as: London £16,000, and Brazil £13,000. —(*Chartered Accountants.*)

24. The X.Z. Co., of London, has a Branch at Newcastle-on-Tyne. Goods sold at Newcastle are supplied from London, but no charge is made in the books as between the Branch and Head Office. On 31st December, the Branch Balance Sheet, after closing the books, was as follows:—

Bought Ledger Balances	£3,290	Sales Ledger Balances	£46,700
Head Office	44,720	Premises Extension A/c, closed to Head Office	Nil
		Cash in hand	50
		Cash at Bank	1,260
	£48,010		£48,010

In the six months up to 30th June next, the following transactions took place at the Branch:—

Sales	£54,180	Cash collected on A/c Sales Ledger Accounts	£42,000
Purchases	4,200	Discount Allowed	2,500
Wages paid	5,700	Cash paid Bought Ledger Accounts	3,800
Salaries paid	560	Cash sent to London.	29,560
Directors' Fees paid	200	Premises Extension, further payments to Contractors	1,500
Fire Insurance, 1 year's premium	480	Bank Balance, 30th June	1,450
Cash in hand, 30th June	60		

Set out the Head Office Account in the Newcastle books on 30th June, to show the entries after the books are closed, and also the Branch Balance Sheet at that date, assuming it to be made up on the same lines as on the previous 31st December.—(*Chartered Accountants.*)

25. If the Rate of Exchange between Germany and Britain be 20·52 marks for £1, make a table showing in three columns the value in marks and pfennige of 1, 2, 3, up to 9 pence; 1, 2, 3, up to 9 shillings; and 1, 2, 3, up to 9 pounds; then use this table to write down the values of £69 15s. 6d. and £84 18s. 9d. in marks and pfennige.—(*Institute of Bankers.*)

26. A in London owes B and Company in Paris 2,515 francs. B & Co.'s account in A's ledger shows a credit balance of £100, A having converted the francs into sterling at the rate of 25·15. A desires to pay B & Co., and for that purpose purchases in London a draft on Paris for 2,515 francs, for which he pays at the rate of 25·18. Make the entries in A's books, posting up and balancing off B's account.—(*Chartered Accountants.*)

27. Sebire Frères, Paris, remit to Brown & Co., London, a cheque for 1,000 francs, in full settlement of an account of £40. Brown & Co's. bankers credit

them, at the exchange of 25·25 francs, with £39 12s. 1d. Set out the entry in Brown & Co's. Cash Book ; also their Ledger Account with Sebire Frères.—(*Chartered Accountants.*)

28. Messrs. Evan Williams & Co. are a firm of City Merchants, whose principal interests are in the United Kingdom. They have, however, a growing business with Brazil, and invoice goods to their customers in local currency, accepting payment by means of bills in the same currency. State, briefly, how you would record the Brazilian transactions in the London books of the firm.—(*Chartered Accountants.*)

29. J. W. purchased in France from M. de Marsac 100 dozen of wine at 40 francs per dozen, and a bill at 60 days was drawn upon him for the amount and accepted. The entries of the transaction were made by J. W. through his Journal in English money at the rate of exchange of 25 francs per £. The bill was afterwards paid by J. W.'s bankers, the rate of exchange at which he was charged being 25·25 francs per £. Journalise the above transactions, and show the account with M. de Marsac in J. W.'s Ledger.—(*Chartered Accountants.*)

30. Dombey & Son, of Bombay, the agents of Knox & Co., London, advise their principals that the net profits for the six months ending 30th June amount to Rupees 300,000, of which they remitted the following sums :—

May 6th, Rs. 100,000 @ 1s. $4\frac{1}{16}$d.
July 29th, ,, 100,000 ,, 1s. $4\frac{7}{32}$d.
Aug. 26th, ,, 100,000 ,, 1s. $3\frac{31}{32}$d.

Messrs. Knox & Co. calculate the exchange at the uniform rate of 1s. 4d. to the rupee, and write off any differences to an Exchange Account. Write up Knox & Co.'s Cash Book, Journal, and Ledger showing Dombey & Son's Account, Profit and Loss Account, and Exchange Account (writing off any balance to Profit and Loss).—(*Institute of Bankers.*)

31. A London Company, owning a mine in India, receives monthly cash statements, in Indian currency, from its local manager.

How would you pass these returns into the company's books, and effect the necessary conversion into sterling ?

Illustrate your answer by means of rulings of the book or books you would suggest, and enter therein six imaginary transactions.—(*London Chamber of Commerce.*)

32. The Tinacotah Rubber Plantations, Ltd., own a rubber estate in the East. Practically all the expenditure is local, and is made in cash. The rubber harvested is sent to Hamburg for sale by auction, the net proceeds being remitted to London. The local currency fluctuates considerably.

You are required to outline briefly the system of Book-keeping you would advise the Company to employ, and to explain how you would deal with the questions of currency and exchange.—(*Royal Society of Arts.*)

33. Messrs. Pernet Ducher & Co., Ltd., London, have a branch office in a South American Republic, where the exchange fluctuations are considerable. The books of the branch are kept in local currency only, and, at the close of each financial year, a Trial Balance, Profit and Loss Account, and Balance Sheet are sent to the London office.

Briefly describe how you would amalgamate the branch figures with those of the Head Office.

At what rates would you convert (1) the Profit and Loss Account balance,

(2) the Floating Assets, (3) the Fixed Assets, and (4) Remittances from London ?—(*London Chamber of Commerce.*)

34. Clarke, Ellis & Co. are a London firm, whose chief business is in England. They have, however, a considerable business with South American buyers, and invoice goods to them in local currency and accept payment by bills in the same currency. How would you record the South American transactions in the books of the firm ?—(*Royal Society of Arts : Accounting and Banking.*)

35. An English Company owns a Tea Plantation in Ceylon. All the tea produced is shipped to a London firm of tea brokers who duly furnish Account Sales and remit proceeds to the London office of the Company. The accounts of the detailed expenditure in Ceylon are kept in Indian currency and are sent to the Head Office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the Head Office books ?—(*London Chamber of Commerce.*)

36. Convert the following Trial Balance into sterling, and write up the accounts in the Head Office and Branch books, giving the Journal entries in each case.

CHICAGO BRANCH TRIAL BALANCE.

31st Dec., 19—	*Dr.*		*Cr.*	
	Dols.	*Cts.*	*Dols.*	*Cts.*
Fixtures and Fittings	5,212	80		
Bills Receivable	11,832	90		
Sundry Debtors	19,682	56		
Sundry Creditors			4,741	30
Stock, 1st Jan.	10,351	00		
Purchases	36,930	64		
Sales			67,500	50
Discounts Allowed	1,250	68		
Discounts Earned			594	96
Sundry Expenses	2,767	60		
Wages and Salaries	6,825	50		
Rent, Rates, Taxes, and Insurance	1,451	12		
Bad Debts	878	58		
Depreciation	256	64		
Cash in hand	910	50		
Cash at Bank	9,121	14		
Head Office A/c, 1st Jan.			64,134	90
Remittances to Head Office	29,500	—		
	136,971	66	136,971	66

Stock, 31st Dec., $10,510.

Rate of Exchange at date of last balancing (31st Dec.) . 4·87
,, ,, this 31st Dec. (current rate) . . 5·04
Average Rate for Year . . . . . 4·96
Rate when Fixtures were purchased . . . . 4·87

In the Head Office books the Branch Account and the Remittances from Branch appear as £12,745 2s. 10d. and £5,797 7s. 4d. respectively.

37. From the following Trial Balances prepare Balance Sheet of the Brazil Trading Co., Ltd., as at 31st Dec., 19—

PARA TRIAL BALANCE.

31st Dec., 19—	*Dr.*	*Cr.*
	Milreis.	*Milreis.*
London Office A/c (£19,625 0s. 10d.)		308,412
Furniture and Fixtures	8,348	
Sundry Debtors	178,924	
Sundry Creditors		31,900
Stock-in-Trade	177,840	
Cash at Bank	20,680	
Profit and Loss A/c (net profit for year)		45,480
	385,792	385,792

LONDON TRIAL BALANCE.

31st Dec., 19—	*Dr.*			*Cr.*		
Para Office A/c (Remittances thereto at actual rates)	19,625	–	10			
Share Capital A/c (40,000 Shares of £1 each, 10s. per share paid up)				20,000	–	–
Cash at Bank	915	13	4			
Profit and Loss A/c (balance 1st Jan.)				540	14	2
	20,540	14	2	20,540	14	2

Rate at date of last balancing (31st Dec.)	16d. per milreis
Rate this 31st Dec. (current rate)	15½d. ,,
Average Rate for Year	15d. ,,
Rate of day when Fixtures were purchased	16d. ,,

38. Convert the following Trial Balance into sterling and draw up the final accounts, making the necessary Journal entries to record the particulars in the Head Office books. Show also the accounts in the Head Office and Branch Ledgers.

Rate of Exchange last 31st Dec.	23d.
,, ,, this ,, (current rate)	25d.
Average Rate for Year	24½d.

The Branch Account, and the Remittances from Branch, appear in the Head Office books as £9,281 7s. 10d., and £1,108 10s. 6d., respectively.

PETROGRAD TRIAL BALANCE.

31st Dec., 19—	*Dr.* Roubles.	*Dr.* Co-pecks.	*Cr.* Roubles.	*Cr.* Co-pecks.
Head Office A/c, 1st Jan.			92,189	16
Remittances to Head Office	11,485	45		
Stock, 1st Jan.	21,054	60		
Freehold Land and Buildings (Rate of Purchase 25d.)	28,800	—		
Purchases	56,126	40		
Sales			78,837	34
Sundry Debtors	45,829	80		
Sundry Creditors			19,370	80
Mortgage on Freehold (Borrowed at 24d.)			10,000	—
Furniture and Fixtures (Rate of Purchase 22d.)	11,454	55		
Carriage and Freight Inwards	3,904	24		
Salaries and Wages	7,599	76		
Sundry Expenses	643	70		
Rates and Taxes	1,239	50		
Cash in hand	109	68		
Cash at Bank	12,149	62		
	200,397	30	200,397	30

Stock, 31st Dec., 17,826·16 roubles.

39. SHANGHAI TRIAL BALANCE.

31st Dec., 19—	*Dr.* Taels.	*Cr.* Taels.
Head Office A/c, 1st Jan.		92,713
Remittances to Head Office	19,000	
Stock, 1st Jan.	13,106	
Freehold Land and Buildings (Rate on date of Purchase, 3s. 4d.)	18,000	
Purchases	43,040	
Sales		68,002
Sundry Debtors	26,780	
Sundry Creditors		14,754
Fixtures and Fittings (Rate on date of Purchase 3s.)	6,333	
Carriage and Freight Inwards	2,631	
Salaries	2,908	
Rates and Taxes	669	
Sundry Expenses	365	
Cash in hand	139	
Cash at Bank	13,644	
Plant & Machinery (Rate on date of Purchase 3s. 6d)	18,000	
Wages	8,328	
Depreciation	2,526	
	175,469	175,469

Stock, 31st Dec., 11,588 taels.

Convert the above Shanghai Trial Balance into sterling, and draw up the final accounts, making the necessary Journal entries to record the

particulars in the Head Office books. Show also the accounts in the Head Office and Branch Ledgers.

Rate of Exchange last 31st Dec. . . . 2s. 10d. per tael
" " this " (current rate) . 3s. 6d. "
Average Rate for Year . . . . . 3s. 2d. "

The Branch A/c, and the Remittances from Branch, appear in the Head Office books as £15,270 2s. 6d., and £2,850, respectively.

40. (*a*) From the following Balance Sheet and summary of transactions write up the foreign books and balance them, and show also the records in the London books. The Revenue items are converted into sterling at the average rate of exchange for each month. The Stores Account is kept both in currency and standard (18d.) dollars.

BRANCH BALANCE SHEET.—31st Dec., 19—

Liabilities.	$	*Assets.*	$
Sundry Creditors . .	15,000	Bank balance . . .	10,000
London Office A/c . .	95,000	Sundry Debtors . .	40,000
		Stores on hand . .	60,000
	110,000		110,000

Rate of Exchange, 31st Dec., $ = 9½d.

SUMMARY OF TRANSACTIONS FOR JANUARY.

	£	$
Stores received from London @ 9d. . .	£1,000	
" purchased locally		3,000
" used on Revenue A/c . .	Std. $6,000	
" " " Capital A/c . .	Std. $4,000	
Gross Revenue earned		40,000
Wages paid on Capital A/c		3,000
" " " Revenue A/c		8,000
Trade Expenses accrued		6,000
Cash received from Debtors		40,000
Cash paid to Creditors		16,000
Average Rate of Exchange		9d.

Remittance to Head Office (Sterling bills on London) :—
$12,000 @ 10½d. on 27th Jan.
Rate of Exchange, 31st Jan., 10d.

(*b*) Re-work the previous exercise, (*a*), using two sets of books, Gold Books kept in standard (18d.) dollars, and Paper Books kept in currency dollars, and show the records in the London books.

REVISION EXERCISE XVII.

1. Journalise the following transactions :—
W. Smith commenced trading on 1st January, paying to his Bank (the London and National Bank) on that day the sum of £1,000 as his Capital.

Jan. 2.—He bought goods from X & Co., for which he received invoice amounting to £362 1s. 8d., and gave a bill for that amount.

Jan. 3.—Having received an invoice from the H.B.C. Furnishing Co. for £131 10s. for office furniture, he paid by cheque, deducting 5% discount.

Jan. 3.—He bought goods from the London Trading Company amounting to £271 6s. 3d.; on receiving the goods he found that they were not up to sample and arranged that he should return part amounting to £51 6s. He paid for the balance by cheque on his bank.

Jan. 4.—To oblige his friend, H. Jones, he advanced him £50 by cheque, receiving a bill for £55 payable in three months' time.

Jan. 5.—He gave his clerk cheque for £10 for petty cash.

Jan. 6.—He sold to George & Co. goods for £220, for which they paid in cash, deducting 2½% discount.

Jan. 7.—He bought goods on credit from W. and H. Johnson amounting to £862 11s. 1d.

Jan. 8.—He drew cheque on his bank for £20, being £3 one week's salary to his clerk and £17 for his private use.

Jan. 9.—He sold goods to A. Murray & Co., for £71 6s. 2d., receiving their cheque in payment, which he paid in to his bank.

Jan. 10.—His clerk paid the sum of 15s. out of petty cash for stationery.

Jan. 11.—Messrs. A. Murray & Co.'s cheque was returned unpaid by the bank.—(*Civil Service, Second Division Clerks.*)

2. Explain what is meant by "discounting a bill," "posting a ledger," "taking out a Trial Balance," and explain the difference between a "Trial Balance" and a "Balance Sheet."—(*Civil Service, Second Division Clerks.*)

3. I lent Mr. James Price on 18th Jan. the sum of £100, he giving me as security his bill for that amount plus 5% interest for three months. Make out the bill and state on what date Mr. James Price must pay it. Show the entries necessary to be made in Mr. Price's journal to record the transaction. —(*Civil Service, Second Division Clerks.*)

4. Define an "Account Current," and make out such an account for North & Co. in respect of the following transactions with East & Co.:—

Sept.	16.	Goods sold to East & Co., £100, due 1st Oct.
Oct.	1.	Received cash from East & Co., £45.
,,	21.	Goods bought of East & Co., £250, due 1st Dec.
Nov.	1.	Paid to East & Co., cash, £165.
Dec.	1.	Paid to East & Co., cash, £150.
,,	5.	Goods bought of East & Co., £250, due 1st Jan.
,,	10.	Goods bought of East & Co., £110, due 1st January.
Jan.	1.	Paid cash to East & Co., £300.
,,	9.	Goods sold to East & Co., £10, due 1st February.

The account to be made up to 1st February. Interest to be at 6 per cent., which may be calculated by months instead of days.—(*Chartered Accountants.*)

5. Mr. Arthur Wilson, finding his business increasing, arranged to take into partnership Mr. Henry Day.

Wilson's assets and liabilities were as follows :—

Assets.	£	s.	d.	*Assets.*	£	s.	d.
Freehold Factory	2,500	–	–	Balance at Bank	120	18	10
Machinery	1,200	–	–	Office Furniture	72	3	4
Stock	721	4	6	Sundry Expenses paid in advance	42	–	–
Book Debts	1,452	8	9	Loan to J. Smith	100	–	–
Bills Receivable	212	17	3				
Cash in hand	8	4	1				
Liabilities.							
Mortgage on Factory	1,000	–	–	Bills Payable	416	15	–
Sundry Creditors	826	5	7				

The difference between his assets and liablities is his capital.

Henry Day is to pay Wilson the sum of £1,000 as premium and to put in the sum of £1,500 as his capital in cash.

Wilson puts the amount of the premium into the business as further capital.

Make out a Balance Sheet showing the position of the firm after these arrangements have been carried out.—(*Civil Service, 2nd Division Clerks.*)

6. You are required to make the necessary Journal entries to adjust the following matters :—

(*a*) An investigation of the accounts of a defaulting cashier discloses that £318 4s. 6d. has been received by him from the firm's debtors, and £10 12s. 4d. for cash sales, and that he had paid £6 8s. 4d. for goods, £66 5s. 4d. to Creditors (net), discount deducted having been £1 13s. 9d. No entries of these items had been made in the books. Petty cash expenses book shows that there is £5 3s. 6d. due to him.

(*b*) An amount of £95 standing to the debit of A. Brown you find is a payment for 2 horses and a cart.

(*c*) Goods sold of the value of £100 are packed, and the invoice for them sent to the purchasers. Stock-taking intervenes, and the parcel of goods is not despatched, but is included in the stock figure. This is, however, discovered before the year's accounts are finally drafted.

(*d*) A discounted acceptance for £100 realises £95 in cash. You find that the customer from whom the acceptance was received has been credited with £95.—(*Civil Service, 2nd Division Clerks.*)

7. White, Gratton & Co.'s Balance Sheet on 31st December showed the following Assets and Liabilities :—

Land and Works	£146,000	Cash at Bankers and in hand	£6,500
Stock and Work in progress	140,200	Bills Receivable	7,000
Patents, Licences, etc.	10,000	Creditors	71,200
Book Debts	75,000		

A Limited Company was formed with a Share Capital of £300,000, divided into 150,000 £1 Ordinary and £150,000 £1 5 per cent. Preference Shares, and a Debenture Capital of 1,000 £100 4 per cent. Debentures, and took over the assets of the firm, except cash and bills, and accepted the liability to creditors, for the consideration of £350,000, payable in 50,000 fully paid Ordinary and 50,000 fully paid Preference Shares and 500 Debentures, and the balance in cash.

A prospectus was issued and the balance of the Shares and Debentures was offered to the public as follows :—

Payable.	Per Share.	Per Debenture.
On Application	2s. 6d.	20 per cent.
On Allotment	7s. 6d.	30 ,,
On First Call	5s. 0d.	25 ,,
On Second Call	5s. 0d.	25 ,,

All the Shares and Debentures were applied for and were allotted, and payments were made when due.

Make the necessary entries in the Company's books recording the transactions and the discharge of the indebtedness to the vendor firm, and show how the Balance Sheet of the Company will appear.—(*Chartered Accountants.*)

8. Prepare a Ledger account showing the sum due, after making undermentioned apportionments, to the Vendor of a property, the sale price of which is £800. The date for settlement is 1st February, 1913, but completion of the purchase is made on 15th February, 1913, 5% interest being chargeable in the meanwhile.

Schedule "A" tax for the year ending 5th April, 1913, amounting to £2 12s. 6d, and Land Tax for the year ending 25th March, 1913, amounting to 9s. 6d. had been paid by the Purchaser who occupied the premises. The rent was £56 per annum, and was paid up to 25th December, 1912. The Fire Insurance Premium for the year ending 25th March, 1913, amounting to 12s., had been paid by the Vendor. A ground rent of £5 per annum on the property payable in advance for the year ending 31st December, 1913, had been paid by the Vendor.—(*Civil Service, 2nd Division Clerks.*)

9. The following is the Balance Sheet of A, B & C on 31st December :—

Liabilities.		*Assets.*	
Creditors	£2,000	Cash	£500
Bank Loan	500	Stock	2,000
Bills Payable	500	Plant and Tools	2,000
A—Capital	2,500	Sundry Debtors	1,000
B—Capital	1,500	Bills Receivable	1,000
		C—Capital overdrawn	500
	£7,000		£7,000

C is insolvent, but his partners recover from his private estate £250. It is decided to wind up the partnership, and the assets realise: Cash £500, Stock £1,600, Plant and Tools £1,500, Sundry Debtors £750, Bills Receivable £700. Profits and Losses are divided equally. What would be the position of each partner's account on the winding-up of the partnership in accordance with the Partnership Act, the costs of realisation amounting to £250?—(*Chartered Accountants.*)

10. On the dissolution of the partnership of R, S and T, the following is a summary of the state of their accounts :—

	Dr.		*Cr.*
Sundry Assets, which realised	£21,050 – –	Sundry Liabilities	£5,500 – –
T's Capital A/c, overdrawn	750 – –	S's Capital A/c	7,000 – –
Subject to Interest at 6% per annum, six months owing	22 10 –	R's Capital A/c	11,000 – –
		R's Balance of Undrawn profits, and Loan A/c	2,100 – –
		Subject to Interest at 6 % per annum, six months owing	63 – –
	£21,822 10 –		£25,663 – –

The partnership agreement provides for profits and losses to be shared as follows: R (a limited partner) one-fourth, S one-half, and T one-fourth. Adjust the partnership accounts, and show the position of each partner in the winding-up.—(*Chartered Accountants.*)

CHAPTER XVIII

BANKRUPTCY, STATEMENT OF AFFAIRS, DEFICIENCY ACCOUNT, TRUSTEES' ACCOUNTS

Bankruptcy Laws and their Object.—The law that governs bankruptcy proceedings is the Bankruptcy Act, 1914, which is a consolidation of the Bankruptcy Acts, 1883 and 1890, and of the bankruptcy part of the Bankruptcy and Deeds of Arrangement Act, 1913, and came into operation on the 1st Jan., 1915. The object of bankruptcy laws is to extricate a debtor who has become hopelessly involved in financial difficulties, by distributing his estate equitably among his creditors, and releasing him from all further liability in respect of his past debts.

Courts of Bankruptcy.—Proceedings must be taken in the County Court of the district in which the debtor has resided or carried on business for the longest period during the six months preceding the bankruptcy. The County Court must be one of those that have had bankruptcy jurisdiction conferred upon them. If the debtor is resident in the metropolitan district, or abroad, or if his residence is unknown, then proceedings may be taken in the High Court. The Board of Trade has important powers in controlling and supervising bankruptcy proceedings. (Secs. 96-7-8.)

Persons who may be made Bankrupt.—Any person who has the capacity to contract may be made bankrupt. An infant cannot be made bankrupt. A married woman who carries on a trade or business can now be made bankrupt, whether she is carrying on business separately from her husband or not. Companies registered under the Companies Acts, 1908 to 1917, cannot be made bankrupt ; they must be wound up. Partnerships, and also limited partnerships, can be made bankrupt. A deceased debtor cannot be made bankrupt, but his estate may be administered in bankruptcy. (Secs. 125-6-7 and 130.)

Acts of Bankruptcy.—An Act of Bankruptcy is an act or default on the part of a debtor deemed to be evidence of his insolvency, and one which enables a creditor to present a petition against him in the Bankruptcy Court. By section 1 of the Act, a debtor commits an act of bankruptcy in each of the following cases :—

(*a*) If in England or elsewhere he makes a conveyance or assignment of his property to a trustee or trustees for the benefit of his creditors generally ;

(*b*) If in England or elsewhere he makes a fraudulent conveyance, gift, delivery, or transfer of his property, or any part thereof ;

(*c*) If in England or elsewhere he makes any conveyance or transfer of

his property, or any part thereof, or creates any charge thereon, which would under this or any other Act be void as a fraudulent preference if he were adjudged bankrupt;

(*d*) If with intent to defeat or delay his creditors he does any of the following things, namely, departs out of England, or being out of England remains out of England, or departs from his dwelling-house, or otherwise absents himself, or begins to keep house;

(*e*) If execution against him has been levied by seizure of his goods under process in any action in any Court, or in any civil proceeding in the High Court, and the goods have been either sold or held by the sheriff for twenty-one days;

(*f*) If he files in the Court a declaration of his inability to pay his debts, or presents a bankruptcy petition against himself;

(*g*) If a creditor has obtained a final judgment or final order against him for any amount, and, execution thereon not having been stayed, has served on him in England, or, by leave of the Court, elsewhere, a bankruptcy notice under this Act, and he does not, within seven days after service of the notice in case the service is effected in England, and in case the service is effected elsewhere, then within the time limited in that behalf by the order giving leave to effect the service, either comply with the requirement of the notice or satisfy the Court that he has a counterclaim, set-off, or cross demand which equals or exceeds the amount of the judgment debt or sum ordered to be paid, and which he could not set up in the action in which the judgment was obtained, or the proceedings in which the order was obtained.

(*h*) If the debtor gives notice to any of his creditors that he has suspended, or that he is about to suspend, payment of his debts.

By section 1 (2):—

the expression "a debtor," unless the context otherwise implies, includes any person, whether a British subject or not, who at the time when any act of bankruptcy was done or suffered by him—

(*a*) was personally present in England; or

(*b*) ordinarily resided or had a place of residence in England; or

(*c*) was carrying on business in England, personally, or by means of an agent or manager; or

(*d*) was a member of a firm or partnership which carried on business in England.

Bankruptcy Notice.—By section 2:—

A bankruptcy notice under this Act shall be in the prescribed form, and shall require the debtor to pay the judgment debt or sum ordered to be paid in accordance with the terms of the judgment or order, or to secure or compound for it to the satisfaction of the creditor or the Court, and shall state the consequences of non-compliance with the notice, and shall be served in the prescribed manner.

Petition.—Bankruptcy proceedings are commenced by the presentation of a petition for a Receiving Order to be made against the debtor. A petition may be made by the debtor himself, who must allege inability to pay his debts. By section 4 of the Act, a creditor is not entitled to present a bankruptcy petition against a debtor unless:—

(*a*) The debt owing by the debtor to the petitioning creditor, or, if two

or more creditors join in the petition, the aggregate amount of debts owing to the several petitioning creditors, amounts to fifty pounds; and

(*b*) The debt is a liquidated sum, payable either immediately or at some certain future time; and

(*c*) The act of bankruptcy on which the petition is grounded has occurred within three months before the presentation of the petition; and

(*d*) The debtor is domiciled in England, or within a year before the date of the presentation of the petition has ordinarily resided, or had a dwelling-house or place of business, in England, or (except in the case of a person domiciled in Scotland or Ireland, or a firm or partnership having its principal place of business in Scotland or Ireland) has carried on business in England, personally or by means of an agent or manager, or (except as aforesaid) is or within the said period has been a member of a firm or partnership of persons which has carried on business in England by means of a partner or partners, or an agent or manager.

If the debtor is the petitioner, the Court will make the Order at once, unless it is merely an attempt on his part to evade a committal order. If the petition is made by a creditor, a copy must be served on the debtor, and not less than eight days after such service the Court will hear the petition. It may then either make the Receiving Order or dismiss the petition as it thinks fit. Whoever presents the petition must pay the stamp duty of £5, and make the deposit of £5 for fees required by the Bankruptcy Rules.

Receiving Order.—If the Court is satisfied as to the alleged act or acts of bankruptcy on the part of the debtor, it will forthwith make a Receiving Order against him, and this fact will be duly advertised in the *Gazette*. The effect of the Receiving Order is to constitute the Official Receiver the receiver of the debtor's property, and to stay any proceedings against the debtor by the unsecured creditors.

Fraudulent Preference.—Mention has previously been made that a fraudulent preference constitutes an act of bankruptcy. Section 44 deals with a fraudulent preference as follows:—

Every conveyance or transfer of property, or charge thereon made, every payment made, every obligation incurred, and every judicial proceeding taken or suffered by any person unable to pay his debts as they become due from his own money in favour of any creditor, or of any person in trust for any creditor, with a view of giving such creditor, or any surety or guarantor for the debt due to such creditor, a preference over the other creditors, shall, if the person making, taking, paying or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of making, taking, paying or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy.

Statement of Affairs.—This is the statement of an insolvent debtor's assets and liabilities, prepared for submission to the Official Receiver and creditors. Particulars are given, in an inner column, of all secured debts and of the securities in connection with them. The assets available for the general creditors are estimated

at their realisable value and placed on one side of the statement; the liabilities to be paid out of these assets are placed on the other side. The excess of the liabilities over the assets then shows the estimated deficiency. The Statement must be submitted within three days of the Receiving Order if made on the debtor's petition, or within seven days if made on a creditor's petition. It must also be prepared on the official forms. (Sec. 14.)

Meeting of Creditors.—The creditors meet to discuss the Statement of Affairs submitted by the debtor, together with the Official Receiver's observations on it. They may resolve (sec. 13) :—

(1) To accept a composition in satisfaction of their debts.
(2) To agree to a scheme for the arrangement of the debtor's affairs.
(3) That the debtor shall be adjudged bankrupt; that a trustee be appointed to administer the estate; that a committee of inspection be appointed to assist the trustee.

In each case the consent of the Court is necessary. And if either of the first two courses is approved, the Receiving Order is rescinded. In the last case the debtor is adjudged bankrupt by the Court, and notice thereof advertised in the *Gazette*. Almost without exception, a debtor against whom a Receiving Order has been made is required to undergo a public examination.

Composition.—This is a legal arrangement between a debtor and his creditors, whereby each creditor agrees to accept a part of his debt in full settlement of the whole of it.

Deed of Arrangement.—This is a deed embodying an arrangement arrived at between a debtor and his creditors to assign all his property to a trustee for their benefit, to pay them by instalments, or to compound with them. Such a deed is governed by the Deeds of Arrangement Act, 1914. It enables a debtor to escape the publicity and stigma of the Bankruptcy Court; while the creditors obtain a larger dividend, as the expenses consequent on bankruptcy are avoided. Such an arrangement, however, constitutes an act of bankruptcy, and a dissentient creditor may present a bankruptcy petition against the debtor founded on the deed. Should the debtor be declared bankrupt within three months of the execution of the deed, the latter becomes void against the trustee in bankruptcy. Owing to this contingency, the trustees under such deeds generally allow three months to elapse before distributing any of the assets realised.

Committee of Inspection.—This is a small number of creditors, not more than five and not less than three, appointed by the whole body of creditors to supervise the winding-up of a debtor's or company's affairs under the trustee in bankruptcy, liquidator, or Official Receiver. When there is no committee of inspection, its functions are exercised by the Board of Trade.

Public Examination.—The examination is held in open Court

as soon as possible after the debtor has furnished his Statement of Affairs, unless the Receiving Order has been rescinded. Questions may be put to the debtor, by either the Official Receiver or the creditors, as to his conduct, his business affairs, and his property.

Discharge.—When the public examination is concluded, the debtor may apply to the Court for an order of discharge. The Court has power to grant it, refuse it, or to suspend it for a time, as it thinks fit, taking into consideration all the circumstances of the case. By section 26 (2), the Court must refuse the discharge in all cases where the bankrupt has committed any misdemeanour under the Bankruptcy Acts, or in connection with his bankruptcy, or any felony connected with his bankruptcy (unless for special reasons the Court otherwise determines). It may also (1) refuse the discharge, (2) suspend it for not less than two years, or (3) suspend it until a dividend of 10s. in the £ has been paid to the creditors, or (4) require the debtor as a condition of his discharge to consent to judgment being entered against him for the unsatisfied balance of the debts proved in the bankruptcy, on proof of any of the following facts :—

(*a*) That the bankrupt's assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities, unless he satisfies the Court that the fact that the assets are not of a value equal to ten shillings in the pound on the amount of his unsecured liabilities has arisen from circumstances for which he cannot justly be held responsible;

(*b*) That the bankrupt has omitted to keep such books of account as are usual and proper in the business carried on by him, and as sufficiently disclose his business transactions and financial position within the three years immediately preceding his bankruptcy;

(*c*) That the bankrupt has continued to trade after knowing himself to be insolvent;

(*d*) That the bankrupt has contracted any debt provable in the bankruptcy without having at the time of contracting it any reasonable or probable ground of expectation (proof whereof shall lie on him) of being able to pay it;

(*e*) That the bankrupt has failed to account satisfactorily for any loss of assets or for any deficiency of assets to meet his liabilities;

(*f*) That the bankrupt has brought on, or contributed to, his bankruptcy by rash and hazardous speculations, or by unjustifiable extravagance in living, or by gambling, or by culpable neglect of his business affairs;

(*g*) That the bankrupt has put any of his creditors to unnecessary expense by a frivolous or vexatious defence to any action properly brought against him;

(*h*) That the bankrupt has, within three months preceding the date of the receiving order, incurred unjustifiable expense by bringing a frivolous or vexatious action;

(*i*) That the bankrupt has, within three months preceding the date of the receiving order, when unable to pay his debts as they become due, given an undue preference to any of his creditors;

(*j*) That the bankrupt has, within three months preceding the date of the receiving order, incurred liabilities with a view of making his assets equal to ten shillings in the pound on the amount of his unsecured liabilities;

(*k*) That the bankrupt has, on any previous occasion, been adjudged bankrupt, or made a composition or arrangement with his creditors;
(*l*) That the bankrupt has been guilty of any fraud or fraudulent breach of trust.

Effect of the Order of Discharge.—As soon as the debtor has obtained his order of discharge, he is released from all debts provable in the bankruptcy, except :—

(1) Debts to the Crown ;

(2) Debts incurred through fraud, or through a fraudulent breach of trust ;

(3) Judgment debts in an action for seduction, in affiliation proceedings, or in a matrimonial cause. (Sec. 28.)

Undischarged Bankrupt.—This is an insolvent debtor who has not succeeded in obtaining his discharge. By section 155 :—

Where an undischarged bankrupt—
(*a*) either alone or jointly with any other person obtains credit to the extent of ten pounds or upwards from any person without informing that person that he is an undischarged bankrupt ; or
(*b*) engages in any trade or business under a name other than that under which he was adjudicated bankrupt without disclosing to all persons with whom he enters into any business transaction the name under which he was adjudged bankrupt ;
he shall be guilty of a misdemeanour.

The maximum penalty, under section 164, is two years' imprisonment with or without hard labour.

Annulment of Adjudication.—The Court has power to annul any Receiving Order that has been made on improper grounds. Where a bankrupt subsequently makes a satisfactory arrangement with his creditors, or afterwards pays his debts in full, the Court may annul the bankruptcy. If this happens, the debtor is restored to his original position before the bankruptcy proceedings.

Joint and Separate Estates.—By section 33 (6) it is enacted as follows :—

In the case of partners, the joint estate shall be applicable in the first instance in payment of their joint debts, and the separate estate of each partner shall be applicable in the first instance in payment of his separate debts. If there is a surplus of the separate estates, it shall be dealt with as part of the joint estate. If there is a surplus of the joint estate, it shall be dealt with as part of the respective separate estates in proportion to the right and interest of each partner in the joint estate.

Small Bankruptcies.—By section 129, it is enacted :—

Where a petition is presented by or against a debtor, if the Court is satisfied by affidavit or otherwise, or the Official Receiver reports to the Court that the property of the debtor is not likely to exceed in value three hundred pounds, the Court may make an order that the debtor's estate be

administered in a summary manner, and thereupon the provisions of this Act shall be subject to the following modifications:—

(i) If the debtor is adjudged bankrupt, the Official Receiver shall be the trustee in the bankruptcy;

(ii) There shall be no committee of inspection, but the Official Receiver may do, with the permission of the Board of Trade, all things which may be done by the trustee with the permission of the committee of inspection;

(iii) Such other modifications may be made in the provisions of this Act as may be prescribed by general rules with the view of saving expense and simplifying procedure; but nothing in this section shall permit the modification of the provisions of this Act relating to the examination or discharge of the debtor.

Provided that the creditors may at any time, by special resolution, resolve that some person other than the Official Receiver be appointed trustee in the bankruptcy, and thereupon the bankruptcy shall proceed as if an order for summary administration had not been made.

Administration Order.—In small cases of insolvency, where the total liabilities do not exceed £50, bankruptcy proceedings are not possible, and the Court is empowered to make an Administration Order, and compel the debtor to pay the whole or a portion of his debts either at once, or by stated instalments, out of his earnings. (B.A. 1883, Sec. 122, which is not repealed by the 1914 Act.)

STATEMENT OF AFFAIRS

Official Forms.—On pages 744 to 750 will be found reduced facsimiles of the prescribed forms, Lists A to K, List L, and Front Sheet (or Statement). Each list has to be signed by the debtor and dated, thus—

Signature .....
Dated .....19..

List "A," Unsecured Creditors.—On this list appear the names of all cash and trade creditors who have merely a claim upon the general assets of the estate. Creditors on Promissory Notes and Bills Payable are unsecured creditors, these documents not being documents of title. The balances of debts that exceed the preferential limit (rent, wages, salaries, etc., as per Lists F and G) are also shown on this list. On the printed form will be found notes respecting the treatment of contra accounts and the particulars required of any bills of exchange held by creditors.

List "B," Fully Secured Creditors.—On this list appear the names of creditors who hold a covering security for their debts, such as a mortgage, charge, or lien upon any property of the debtor. The holder of an absolute Bill of Sale is also a secured creditor as regards the chattels mentioned therein. Goods sent on approval, or on sale or return, remain the property of the owner unless they are in the order and disposition of the debtor; (Sec. 38 (2) (c)) and

In the High Court of Justice.

In Bankruptcy.

No. of 19

Re

N.B.—You are required to fill up carefully and accurately this sheet, and the several sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz.—the day of 19

Such sheets when filled up will constitute your statement of affairs and must be verified by oath or declaration.

STATEMENT OF AFFAIRS.

At 19 , date of Receiving Order.

Gross Liabilities. £ s. d.	Liabilities (as stated and estimated by Debtor).	£ s. d.	Expected to Rank. £ s. d.	Assets (as stated and estimated by Debtor).	£ s. d.	Estimated to produce. £ s. d.
	Unsecured creditors as per list (A)			Property as per list (H), viz.—		
	Creditors fully secured as per list (B)			(a) Cash at banker's		
	Estimated value of securities			(b) Cash in hand		
				(c) Cash deposited with Solicitor for costs of petition ..		
	Surplus			(d) Stock-in-Trade (cost £)		
	Less amount thereof carried to sheet (C) ..			(e) Machinery		
				(f) Trade Fixtures, Fittings, Utensils, etc.		
	Balance thereof to contra .. ..£			(g) Farming Stock		
				(h) Growing Crops and Tenant Right		
	Creditors partly secured as per list (C) ..			(i) Furniture		
	Less estimated value of securities			(j) Life Policies		
				(k) Other Property, viz.—		
				Total as per list (H) ..		
	Liabilities on Bills discounted other than Debtor's own acceptances for value as per list (D), viz.—			Book debts, as per list (L), viz. :—		
	On accommodation bills as Drawer, Acceptor, or Indorser .. ..£ „ „			Good		
				Doubtful		
	On other bills as Drawer or Indorser .. ..£ „ „			Bad		
	Of which it is expected will rank against the estate for dividend					
	Contingent or other liabilities as per list (E) £ „ „			Estimated to produce		
	Of which it is expected will rank against the estate for dividend			Bills of exchange or other similar securities as per list (J) .. .. £ „ „		
				Estimated to produce.. ..		
	Creditors for rent, etc., recoverable by distress as per list (F) ..			Surplus from securities in the hands of creditors fully secured (per contra)		
	Creditors for rates, taxes, wages, etc., payable in full as per list (G) ..				£	
	Sheriff's charges payable under Sec. 41 of the Bankruptcy Act, 1914, estimated at			Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's Charges, etc. (per contra)		
		£			£	
	Deducted contra ..	£		Deficiency explained in statement list (K)		
		£			£	

I of
in the County of make oath and say that the above statement and the several lists hereunto annexed, marked A, B, C, D, E, F, G, H, I, J, and K, are, to the best of my knowledge and belief, a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at
in the County of
this day of 19 } (Signature)

LIST "A."—UNSECURED CREDITORS.

The Names to be arranged in alphabetical order and numbered consecutively, Creditors for £10 and upwards being placed first.

No.	Name.	Address and Occupation.	Amount of Debt.	Date when contracted.		Consideration.
				Month.	Year.	

NOTES.—(1) When there is a contra account against the Creditor less than the amount of his claim against the estate, the amount of the Creditor's claim and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

Total amount of claim .. .. .. £ : :
Less contra account .. .. .. £ : :
£ : :

No such set-off should be included in sheet "I."

(2) The particulars of any Bills of Exchange and Promissory Notes held by a Creditor should be inserted immediately below the name and address such Creditor.

LIST "B."—CREDITORS FULLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.	Date when contracted.		Consideration.	Particulars of Security.	Date when given.	Estimated value of Security.	Estimated Surplus from Security.
				Month.	Year.					

LIST "C."—CREDITORS PARTLY SECURED.

No.	Name of Creditor.	Address and Occupation.	Amount of Debt.	Date when contracted.		Consideration.	Particulars of Security.	Month and Year when given.	Estimated value of Security.	Balance of Debt Unsecured.
				Month.	Year.					

LIST "D."—LIABILITIES OF DEBTOR ON BILLS DISCOUNTED OTHER THAN HIS OWN ACCEPTANCES FOR VALUE.

No.	Acceptor's Name, Address and Occupation.	Whether liable as Drawer or Indorser.	Date when Due.	Amount.		Holder's Name, Address and Occupation (if known).	Amount expected to rank against Estate for Dividend.
				Accommodation Bills.	Other Bills.		

LIST "E."—CONTINGENT OR OTHER LIABILITIES.

Full particulars of all Liabilities not otherwise Scheduled to be given here.

No.	Name of Creditor or Claimant.	Address and Occupation.	Amount of Liability or Claim.	Date when Liability incurred.		Nature of Liability.	Amount expected to rank for Dividend.
				Month.	Year.		

LIST "F."—CREDITORS FOR RENT, ETC., RECOVERABLE BY DISTRESS.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which claim accrued due.	Date when due.	Amount of Claim.	Amount Recoverable by Distress.	Difference ranking for Dividend (to be carried to List A).

LIST "G."—PREFERENTIAL CREDITORS FOR RATES, TAXES, AND WAGES.

No.	Name of Creditor.	Address and Occupation.	Nature of Claim.	Period during which Claim accrued due.	Date when due.	Amount of Claim.	Amount payable in full.	Difference ranking for Dividend (to be carried to List A).

LIST "H."—PROPERTY

Full particulars of every description of property in possession and in reversion as defined by section 167 of the Bankruptcy Act, 1914, not included in any other list, are to be set forth in this list.

Full Statement and Nature of Property.	Estimated to Produce.
(*a*) Cash at Bankers..	
(*b*) Cash in hand	
(*c*) Cash deposited with Solicitor for Costs of Petition	
(*d*) Stock-in-Trade at (cost £)	
(*e*) Machinery at	
(*f*) Trade Fixtures, Fittings, Utensils, etc., at..	
(*g*) Farming Stock	
(*h*) Growing Crops and Tenant Right at	
(*i*) Household Furniture and Effects at	
(*j*) Life Policies..	
(*k*) Other Property (state particulars), viz.—	

LIST "I."—DEBTS DUE TO THE ESTATE.

No.	Name of Debtor.	Residence and Occupation.	Amount of Debt.			Folio of Ledger or other Book where particulars to be found	When contracted.		Estimated to Produce.	Particulars of any Securities held for Debt.
			Good.	Doubtful.	Bad.		Month.	Year.		

NOTE.—If any debtor to the estate is also a creditor, *but for a less amount than his indebtedness*, the gross amount due to the estate and the amount of the contra account should be shown in the third column, and the balance only be inserted under the heading "Amount of Debt," thus—

	£	s.	d.
Due to estate			
Less contra account			

No such claim should be included in sheet "A."

LIST "J."—BILLS OF EXCHANGE, PROMISSORY NOTES, ETC., AVAILABLE AS ASSETS.

No.	Name of Acceptor of Bill or Note.	Address, etc.	Amount of Bill or Note.	Date when due.	Estimated to Produce.	Particulars of any Property held as Security for Payment of Bill or Note

LIST "K."—DEFICIENCY ACCOUNT.

Excess of Assets over Liabilities on the..... day of..... 19.... (if any)..			Excess of Liabilities over Assets on the[1]..... day of..... 19.... (if any)		
Net profit (if any) arising from carrying on business from the[1]..... day of..... 19...., to date of Receiving Order, after deducting usual Trade Expenses ..			Loss (if any) arising from carrying on business from the[1].....day of ..... 19...., to date of Receiving Order, after deducting from Profits usual Trade Expenses		
Income or profit from other sources (if any) since the[1].....day of..... 19....			Bad Debts (if any) as per Schedule "I"[2]		
Deficiency as per Statement of Affairs..			Expenses incurred since the[1] ..... day of..... 19...., other than usual Trade Expenses, viz.: Household Expenses of self and[3].....		
			Other losses and expenses (if any)[4]—		
			Surplus as per Statement of Affairs (if any)		
Total amount to be accounted for[5]			Total amount accounted for[5]		

NOTES.—(1) This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.
(2) This Schedule must show when debts were contracted.
(3) Add "Wife and Children" (if any), stating number of latter.
(4) Here add particulars of other expenses or losses (if any), including depreciation in the value of stock and effects, or other property as estimated for realisation, and liabilities (if any), for which no consideration received.
(5) These figures should agree.

LIST "L."

(In substitution for such of the Sheets named "A—J" as will have to be returned blank.)

LIST.	PARTICULARS AS PER FRONT SHEET.	DEBTOR'S REMARKS.

do not form part of the bankrupt's estate. A banker may be also a secured creditor in respect of an overdraft, inasmuch as he has a lien on the securities in his possession, unless they have been deposited with him merely for safe custody. A creditor may realise his security and prove for the balance of his debt (if any), or he may surrender his security and prove for the whole of the debt. Should, however, the security in the creditor's possession realise more than the amount of the debt, the creditor must hand over the balance for the benefit of the general creditors. Any estimated surplus from securities in the hands of fully secured creditors must be shown on the assets side of the Statement of Affairs. With mortgage securities, interest will be payable up to date of repayment; for a mortgage is not a first charge in respect of principal and a second charge in respect of interest, but a joint charge in respect of both. Where there are first, second, or third charges on the same property in respect of different debts, the surplus from the first debt will be carried forward to the second, and so on. It should be noted that where the security does not belong to the debtor himself the creditor proves for the full amount.

List "C," Creditors Partly Secured.—This list contains the names of creditors who have a charge on some part of the debtor's property which, when realised, will pay off only a portion of the debt, the balance of which must, therefore, rank against the estate for dividend. On the Statement of Affairs, the value of the security is deducted from the amount of the debt and only the balance extended.

List "D," Liabilities of Debtor on Bills Discounted Other than his own Acceptances for Value.—The debtor's own acceptances for value, *i.e.*, his ordinary Bills Payable, will be included in List "A." On List "D" the debtor must furnish particulars of all unmatured bills of exchange to which he is a party either as drawer or indorser. The *acceptor* of a bill is, of course, the person primarily liable for payment, yet, if he makes default, the liability attaches to every indorser and also to the drawer. All unmatured Bills Receivable discounted with bankers or bill brokers, or indorsed on to creditors, must, therefore, be entered on this list; but only those that the acceptor is expected to dishonour will be shown as liabilities of the estate *ranking for dividend*, though the *total* will be shown in the "Gross Liabilities" column.

Accommodation Bills must also be shown on this List, but in a separate column. On these bills the debtor may be liable not only as drawer or indorser but also as accommodation *acceptor*. He is not liable to the drawer unless he has shared the proceeds, but he is liable to any third party who is a holder for value. Where the debtor is the acceptor, such bills should be extended as liabilities of the estate. Where, however, he is liable merely as drawer or

indorser, only those bills expected to be dishonoured should be shown as ranking against the estate for dividend.

List "E," Contingent or Other Liabilities.—On this list must be entered all liabilities as surety or guarantee for others, the balance due on shares not fully called up, liabilities in respect of any uncompleted contracts or a repairing lease, etc., loans for business purposes from the debtor's wife, loans carrying by way of interest a share of profits, etc.

Postponed or Deferred Creditors.—Certain of the creditors entered on List "E" are called postponed or deferred creditors, because their claims are not considered unless and until all the other creditors have been paid in full. These are—

(1) Loans for business purposes from the debtor's wife where the debtor is a sole trader. If the husband is a partner in a firm, and the wife has lent money to the firm, she cannot claim as an ordinary creditor. This postponement was formerly enacted by the Married Woman's Property Act, 1882, section 3, but is now incorporated in the Bankruptcy Act, 1914, section 36 of which reads as follows:—

(1) Where a married woman has been adjudged bankrupt, her husband shall not be entitled to claim any dividend as a creditor in respect of any money or other estate lent or entrusted by him to his wife for the purposes of her trade or business until all claims of the other creditors of his wife for valuable consideration in money or money's worth have been satisfied.

(2) Where the husband of a married woman has been adjudged bankrupt, any money or other estate of such woman lent or entrusted by her to her husband for the purpose of any trade or business carried on by him or otherwise, shall be treated as assets of his estate, and the wife shall not be entitled to claim any dividend as a creditor in respect of any such money or other estate until all claims of the other creditors of her husband for valuable consideration in money or money's worth have been satisfied.

(2) Loans for business purposes at a rate of interest varying with the profits. (*See* Partnership Accounts, page 301 (*d*).)

(3) Amount due to seller of the goodwill of a business in consideration of a share of the profits. (*See* Partnership Accounts, page 301 (*e*).)

The last two are governed by the Partnership Act, 1890, section 3, which enacts as follows:—

In the event of any person to whom money has been advanced by way of loan upon such a contract as is mentioned in the last foregoing section, or of any buyer of a goodwill in consideration of a share of the profits of the business, being adjudged a bankrupt, entering into an arrangement to pay his creditors less than twenty shillings in the pound, or dying in insolvent circumstances, the lender of the loan shall not be entitled to recover anything in respect of his loan, and the seller of the goodwill shall not be entitled to recover anything in respect of the share of profits contracted for, until the claims of the other creditors of the borrower, or buyer for valuable consideration in money or money's worth, have been satisfied.

Section 33 (9) of the Bankruptcy Act, 1914, expressly confirms this.

List "F," Creditors for Rent, etc., Recoverable by Distress.—If the landlord distrains within three months before the date of the Receiving Order, he can be called upon to pay the preferential creditors out of the proceeds, becoming a preferential creditor himself for any loss he thereby sustains [section 33 (4)]. Should he distrain after the commencement of the bankruptcy, he is only entitled to *six months'* rent, the balance ranking for dividend [sec. 35.] Gas, Water, and Electric Light Corporations often have power of distraint in respect of their particular charges, and would, in such cases, also appear on this list.

List "G," Preferential Creditors for Rates, Taxes, and Wages.—Section 33 (1) of the Bankruptcy Act, 1914, enacts as follows :—

In the distribution of the property of a bankrupt, there shall be paid in priority to all other debts—

(*a*) All parochial or other local rates due from the bankrupt at the date of the receiving order, and having become due and payable within twelve months next before that time, and all assessed taxes, land tax, property or income tax, assessed on the bankrupt up to the fifth day of April next before the date of the receiving order, and not exceeding in the whole one year's assessment;

(*b*) All wages or salary of any clerk or servant in respect of services rendered to the bankrupt during four months before the date of the receiving order, not exceeding fifty pounds;

(*c*) All wages of any labourer or workman not exceeding twenty-five pounds, whether payable for time or for piece work, in respect of services rendered to the bankrupt during two months before the date of the receiving order: Provided that, where any labourer in husbandry has entered into a contract for the payment of a portion of his wages in a lump sum at the end of the year of hiring, the priority under this section shall extend to the whole of such sum, or a part thereof, as the Court may decide to be due under the contract, proportionate to the time of service up to the date of the receiving order;

(*d*) All amounts, not exceeding in any individual case one hundred pounds, due in respect of compensation under the Workmen's Compensation Act, 1906, the liability wherefor accrued before the date of the receiving order, subject nevertheless to the provisions of section five of that Act; and

[*Workmen's Compensation Act*, 1906, *section* 5 (3).—Compensation awarded under this Act to any workmen is preferential to the extent of £100 in each individual case, if the employer goes bankrupt and is not covered by insurance. If the award is covered by insurance, the employer's rights against the insurers are transferred to the workman, who may sue the Insurance Company for the amount of his award (Sec. 1).]

(*e*) All contributions payable under the Health and Unemployment Insurance Acts, by the bankrupt, in respect of employed contributors or workmen in an insured trade during four months before the date of the receiving order.

The foregoing debts shall rank equally between themselves and shall be paid in full, unless the property of the bankrupt is insufficient to meet them, in which case they shall abate in equal proportions between themselves.

Subject to the retention of such sums as may be necessary for the costs of administration or otherwise, the foregoing debts shall be discharged forthwith so far as the property of the debtor is sufficient to meet them.

By section 34, the claim of an apprentice or articled clerk of a bankrupt for compensation for the unexpired portion of his premium is a preferential debt. By section 130 (6) of the same Act, the funeral and testamentary expenses of a deceased insolvent are payable in full out of the debtor's estate in priority to all other debts. By the Friendly Societies Act, 1896, if the bankrupt is an officer of a friendly society, that body has a preference over his other creditors if he has property or money of the society in his possession. This is confirmed by the Bankruptcy Act, section 33 (9).

List "H," Property.—On this list must be entered all the debtor's belongings in the shape of goods, money, real and personal property wherever situated. The printed list sets out what details are required. Only those assets should be included here which are absolutely unfettered. Where assets are pledged or mortgaged as security for debts or loans, the assets appear under such debt or loan as "Value of Security" on the liabilities side, and *not* on the assets side. The surrender value of the life insurance policy (if any) must be shown. Under "Other Property" are included reversionary interests, leases, stocks and shares, jewellery, and, in the case of a partnership bankruptcy, the surplus (if any) from the partners' separate estates.

Property Retained by Bankrupt.—By section 38, the property of the bankrupt divisible amongst his creditors does not comprise the following :—

(1) Property held by the bankrupt on trust for any other person ;

(2) The tools (if any) of his trade, and the necessary wearing apparel and bedding of himself, his wife and children, to a value inclusive of tools and apparel and bedding, not exceeding £20 in the whole.

List "I," Debts due to the Estate.—As can be seen from the printed form, the debts have to be classified into good, doubtful, and bad. The doubtful debts have to be estimated, and the estimated value treated as an asset in the Statement of Affairs. The prescribed form contains a note respecting the treatment of contra accounts (if any).

List "J," Bills of Exchange, Promissory Notes, etc., Available as Assets.—On this list must be furnished particulars of all bills of exchange, promissory notes, etc., held by the debtor. Such documents are, of course, handed over to the Official Receiver immediately the Receiving Order is made.

List "L," In Substitution for Such of the Sheets Named A-J as will Have to be Returned Blank.—The object of this List is to avoid, in the case of small bankruptcies, having to file a number of blank forms. The debtor fills in the letter of each form, and writes the word "nil" opposite to the forms that he returns blank.

Front Sheet.—The totals of the various lists have to be transferred or carried forward to the "Front Sheet" or summary. This

requires a 2s. bankruptcy stamp. The assets are entered as per the lists "H," "I," and "J," "H" being copied in detail; then follows the surplus (if any) from securities in the hands of fully-secured creditors; and the addition of these four gives the total of the *gross* assets. The liabilities are entered from the lists "A" to "E," and the proper amounts are extended into the column headed "Expected to Rank." The liabilities as per lists "F" and "G," and the sheriff's charges (if any) are then entered, but only in the inner column, added up, and the total deducted from the total of the gross assets on the opposite side. The balance gives the total of the *net* assets, and this total subtracted from the total of the liabilities ranking for dividend shows the estimated deficiency, which must agree with the deficiency shown in list "K."

Example 1.—From the following particulars draw up the Statement of Affairs to be furnished to the creditors of A. O. Lovejoy:—

28th September, 19..	£	s.	d.
Unsecured Creditors—			
Bills Payable	1,856	14	11
Household Debts	128	16	10
Trade Accounts	9,037	5	9
Fully-secured Creditors (holding security estimated to produce £9,000)	8,000	–	–
Liability on Bills Discounted, List D (£53 10s. 4d. of which is expected to rank)	557	14	8
Creditors for distrainable Rent	100	–	–
Preferential Creditors for Rates, Taxes, Wages, etc.	122	14	6
Cash in hand	10	12	6
„ at Bank	60	5	10
Stock-in-Trade (estimated to produce £2,500)	4,060	18	2
Furniture and Fixtures (estimated to produce £600)	1,080	12	9
Household Furniture and Effects (estimated to realise £220)	450	10	6
Book Debts—			
Good	2,678	15	4
Doubtful, £526 11s. 6d. expected to produce half; Bad, £487 14s. 10d.			
Bills of Exchange, good	237	18	3

(See page 756.)

Example 2.—From the following particulars prepare Statement of Affairs of Messrs. Rupert and Larkin as at 30th June:—

Plant and Machinery, £30,000; expected to realise £25,000. Stock-in-Trade, £12,000; expected to produce £7,000. Patents, £5,000; estimated to realise £3,000. Furniture and Fixtures, £625 11s. 6d.; expected to produce, £400. Cash in hand, £10 11s. 6d. Cash at Bank, £120 16s. 8d. Bills Receivable, £2,514 10s. 6d., all good. Bills Payable, £4,035 8s. 10d. Loans, £20,000, having a first charge on the Plant and Machinery. Liability for Damages awarded to injured workman under the Workmen's Compensation

STATEMENT OF AFFAIRS

OF A. O. LOVEJOY, 28TH SEPT., 19—

Gross Liabilities.			Liabilities.				Expected to Rank.			Assets.				Expected to Produce.		
11,022	17	6	Unsecured Creditors (A)				11,022	17	6	Property (H)—						
8,000	–	–	Fully Secured Creditors (B)	8,000	–	–				Cash in hand				10	12	6
			Value of Security	9,000	–	–				Cash at Bank				60	5	10
			Surplus to contra	1,000	–	–				Stock-in-trade	4,060	18	2	2,500	–	–
557	14	8	Liability on Bills Discounted (D)	557	14	8	53	10	4	Furniture and Fixtures	1,080	12	9	600	–	–
100	–	–	Creditors for Rent (F)	100	–	–				Household Furniture and Effects	450	10	6	220	–	–
122	14	6	Preferential Creditors for Rates, Taxes, Wages, etc. (G)	122	14	6				*Total*				3,390	18	4
			Deducted in full per contra	222	14	6				Book Debts (I)—						
										Good				2,678	15	4
										Doubtful	526	11	6			
										Bad	487	14	10			
											1,014	6	4	263	5	9
										Bills of Exchange (J)				237	18	3
										Surplus from Securities in hands of Fully Secured Creditors as per contra				1,000	–	–
										Total Assets				7,570	17	8
										Deduct Creditors for Rent and Preferential Creditors, as per contra				222	14	6
										Net Assets				7,348	3	2
										Deficiency				3,728	4	8
19,803	6	8					11,076	7	10					11,076	7	10

STATEMENT OF AFFAIRS

OF RUPERT AND LARKIN, 30TH JUNE, 19—

Gross Liabilities.			Liabilities.				Expected to Rank.			Assets.				Expected to Produce.		
29,752	3	10	Unsecured Creditors (A)[1]				29,752	3	10	Property (H)—						
20,000	–	–	Fully Secured Creditors (B)	20,000	–	–				Cash in hand				10	11	6
			Value of Security	25,000	–	–				Cash at Bank				120	16	8
			Surplus to List "C"	5,000	–	–				Stock-in-Trade	12,000	–	–	7,000	–	–
8,000	–	–	Partly Secured Creditors (C)	8,000	–	–				Furniture and Fixtures	625	11	6	400	–	–
			Value of Security	5,000	–	–	3,000	–	–	Patents	5,000	–	–	3,000	–	–
1,856	11	4	Liability on Bills Discounted (D)	1,856	11	4	104	18	8	Surplus from private estate of L. Larkin				60	–	–
310	–	–	Creditors for Rent (F)	310	–	–				*Total*				10,591	8	2
265	16	6	Preferential Creditors[2] for Rates, Taxes, Wages, etc. (G)	265	16	6				Book Debts (I)— Good	7,068	10	6	6,713	2	–
				575	16	6				Doubtful	2,020	16	8			
										Bad	1,727	7	1			
											3,748	3	9	505	4	2
										Bills of Exchange (J)—	2,514	10	6	2,514	10	6
										Total Assets				20,326	4	10
										Deduct Creditors for Rent, Rates, Taxes, Wages, etc., as per contra				575	16	6
										Net Assets				19,750	8	4
										Deficiency				13,106	14	2
60,184	11	8					32,857	2	6					32,857	2	6

[1] Bills Payable, £4,035 8s. 10d.; Trade Accounts, £25,056 15s.; Rent £310; Damages to Workman, £350.
[2] Damages to Workman, £100; Taxes, £85; Wages and Salaries, £80 16s. 6d.
Estate shows (£19,750 ÷ £32,857) 12s. in the £, subject to expenses of winding up.

Act, 1906, £450, not covered by insurance. Creditors, £33,056 15s., £8,000 of which has a second charge on the Plant and Machinery. Rent owing 1 year, £620. Rates and Taxes, 1 year, £85. Preferential Wages and Salaries, £80 16s. 6d. Book Debts, £10,816 14s. 3d.; good, £7,068 10s. 6d., subject to 5% cash discount; doubtful, £2,020 16s. 8d., expected to produce 25%; and the remainder bad. Liabilities on Bills Discounted, £1,856 11s. 4d., of which £104 18s. 8d. is expected to rank. L. Larkin's private estate shows an expected surplus of £60, and R. Rupert's a deficiency of £146.

How much in the £ does the estate show? (See page 757.)

Difference between a Statement of Affairs and a Balance Sheet.—This is a favourite examination question, and the student should, therefore, carefully note the four principal differences :—

(1) A Balance Sheet is prepared from the figures in the books and shows, on the assets side, the whole of the assets including such items as are being carried forward to be written off in subsequent years; a Statement of Affairs shows only those "free" assets that are available for the general creditors, assets mortgaged or pledged as security for debts being shown underneath the debts themselves.

(2) A Balance Sheet shows the book value of the assets; a Statement of Affairs shows their estimated realisable value as well.

(3) In a Balance Sheet the preferential creditors are included in the total of the liabilities; in a Statement of Affairs they are deducted from the assets.

(4) A Balance Sheet shows a trader's capital, profit or loss, and drawings; a Statement of Affairs excludes all these items.

DEFICIENCY ACCOUNT

Object and Contents.—The object of this form, List "K," is to explain the deficiency as shown in the Statement of Affairs, *i.e.*, to show by means of figures how it has been brought about. Starting from a given date—at least twelve months before the date of the Receiving Order—the initial capital (if any) should be shown on the one side, and all subsequent trading profits and any other sources of income. On the other side should be detailed trading losses, losses by bad debts, and all expenses or losses other than trade expenses, viz., household expenses of self, wife, and children; the difference between premiums paid on life policies and the surrender value of such policies; medical attendance; gambling or stock exchange losses; damages and costs in actions at law; loss through dishonoured bills or accommodation bills expected to rank; and the estimated losses on realisation. The balance of this account must agree with the balance shown by the Statement of Affairs.

Adjustment of Profits and Losses.—In exercises and examination work, the profits and losses are often given *after* charging interest

on capital. In such cases the profits and losses must be adjusted, in order to eliminate this interest from the Deficiency Account. Thus, the profits must be *increased* and the losses *decreased* by the amount of such interest; and, in some cases, a small loss may be converted into a profit by means of this adjustment. When partners' salaries have been credited to capital, *i.e.*, not drawn out in cash, the profits and losses must be adjusted in a similar manner, in order to avoid showing the salaries in the Deficiency Account as having increased the capital. When the partners' salaries have been drawn out in cash, the capital account will not have been affected, and, consequently, the profits and losses will not require adjustment.

Example 1 (a).—Referring to Example 1, draw up from that and the following particulars the Deficiency Account of A. O. Lovejoy:—

Capital at commencement, £5,000. Trading Results: 1st year, profit, £1,356 10s. 6d.; 2nd year, loss, £869 8s. 10d.; 3rd year, loss, £660 7s. 8d. Damages and costs in unsuccessful action at law, £4,000. Drawings, 3 years @ £600 per annum.

DEFICIENCY ACCOUNT

28TH SEPT, 19..

Capital at commencement			5,000	–	–	Trading Losses—			
Trading Profit, 1st year			1,356	10	6	2nd year	£869 8 10		
Household Furniture and Effects			220	–	–	3rd year	660 7 8		
Deficiency as per Statement of Affairs			3,728	4	8			1,529	16	6
						Drawings, 3 yrs. at £600 p.a.		1,800	–	–
						Bad Debts		751	–	7
						Damages and Costs in unsuccessful action at law		4,000	–	–
						Estimated Losses on Realisation—				
						Stock	£1,560 18 2			
						Furniture	480 12 9			
								2,041	10	11
						Household Debts		128	16	10
						Liability on Bills discounted, expected to rank		53	10	4
			10,304	15	2			10,304	15	2

Example 2 (a).—Referring to Example 2, draw up from that and the following particulars the Deficiency Account of Rupert and Larkin:—

Capital at commencement, £10,000. Trading Results: 1st year, profit, £1,116 10s. 8d.; 2nd year, loss, £1,887 6s. 4d.; 3rd year, profit, £587 4s. 3d.; 4th year, profit, £316 11s. 2d.; 5th year, loss, £2,872 15s. 8d. Partners' Drawings: Rupert, £900 per annum; Larkin, £500 per annum. The above profits and losses are after charging interest on capital @ £500 per annum.

DEFICIENCY ACCOUNT

30TH JUNE, 19—

Capital at commencement			10,000	–	–		
Profits by Trading—							
1st year	£1,616	10 8					
3rd year	1,087	4 3					
4th year	816	11 2					
			3,520	6	1		
Surplus from L. Larkin's private estate			60	–	–		
Deficiency as per Statement of Affairs			13,106	14	2		
			26,687	–	3		
Losses by Trading—							
2nd year	£1,387	6 4					
5th year	2,372	15 8					
						3,760	2
Drawings, 5 years at £1,400 p.a.						7,000	–
Bad Debts						3,242	19 7
Estimated Losses on Realisation—							
Stock	£5,000	– –					
Fixtures	225	11 6					
Plant & Machinery	5,000	– –					
Patents	2,000	– –					
Discount on Drs.	353	8 6					
						12,579	– –
Liability on Bills discounted expected to rank						104	18 8
						26,687	– 3

TRUSTEE'S ACCOUNTS

Trustee in Bankruptcy.—This is a person elected by the creditors of a debtor who has been adjudged a bankrupt, to take over his property. The appointment is subject to the approval of the Board of Trade. The trustee's duties are to realise the debtor's estate, and distribute the proceeds, after paying the preferential claims, among the unsecured creditors.

Trustee's Cash Book.—The trustee must keep a Cash Book, the prescribed form of which is as shown on page 761 ; also a Trading Account if he carries on business.

Trustee's Account of Receipts and Payments.—The trustee must also render to the Board of Trade an account of his receipts and payments, the prescribed form of which is as shown on page 766. (Sec. 92.) This is audited by the Board of Trade, and an audited copy is kept for the inspection of the creditors or of the bankrupt.

Record Book.—This is a book that must be kept by the trustee in bankruptcy. In it are recorded the minutes of all meetings, the resolutions passed, and particulars, in order of date, as to how the estate has been administered. (Sec. 86.)

Bankruptcy Estates Account.—This is an account kept by the Board of Trade with the Bank of England, and every trustee in bankruptcy, or under any composition or scheme of arrangement, must pay all moneys received by him into this account. He may, however, with the sanction of the Board of Trade, if the balance of cash is small, and if such procedure is to the obvious advantage of the creditors, make his payments into and out of some local bank. He must open it and keep it in the name of the debtor's estate, and any interest received thereon will form part of the general assets of the estate. A trustee must not pay any sums received by him as trustee into his own private banking account. And if he at any

TRUSTEE'S CASH BOOK.

Dr — RECEIPTS. — PAYMENTS.

Date.	Particulars.	Total.	Drawn from Bank.	Debts Collected.	Property Realised.	Receipts from Securities held by Creditors.	Other Receipts.	Date.	Particulars.	Voucher Nos. (in red).	Total.

PAYMENTS. — *Cr.*

Paid into Bank.	Costs of Realisation.						Allowance to Debtor	Preferential Creditors (Section 33) and Rent.	Payments to redeem Securities.	Dividends Paid.	Other Payments.
	Board of Trade and Court Fees.	Law Costs of Petition (including £5 stamp).	Law Costs after Receiving Order.	Commission on Realisation and Distribution.		Charges of Auctioneer, Accountant, Short-hand Writer, &c., as taxed.	Notices in *Gazette* and Local Paper.	Incidental Expenses, including Possession.					
				Board of Trade.	Trustee.								

BANKRUPTCY ACT, 1914.

In the Court of holden at No. of

IN BANKRUPTCY. *Re*

Dr. Statement, showing postion of Estate at date of application for Release of Trustee. *Cr.*

	Estimated to produce per Debtor's Statement.	Receipts.
To total receipts from date of Receiving Order, viz.—		
Cash at Bankers		
Deposit on Petition		
(*a*) Stock-in-Trade		
(*b*) Machinery, Fixtures, etc.		
(*c*) Farming Stock		
(*d*) Furniture		
(*e*) Other Property		
Book Debts		
Bills of Exchange		
Surplus from Securities		
Other Receipts—		
Total		
Less—		
Deposit returned to Petitioner		
Payments to redeem Securities		
Costs of Execution		
Payments per Trading Account		
	£	
Net Realisations .. .. .. £		

	Payments.
By Board of Trade and Court Fees (including Stamp of £5 on petition)	
Law Costs of Petition	
Other Law Costs	
Trustees' Remuneration as fixed by the Committee of Inspection, viz.—	
per cent. on £....assets realised ..	
per cent. on £....assets distributed in dividend	
Special Manager's Charges	
Person appointed to assist Debtor under Sec. 74 of the B. A., 1914	
Auctioneer's Charges as Taxed	
Other Taxed Costs	
Costs of Possession	
Costs of Notices in *Gazette* and Local Papers ..	
Incidental Outlay	
Total Cost of Realisation .. .. .. £	
Allowance to Debtor	
Creditors, viz.	
Preferential	
Unsecured: Final Dividend now declared of in the £ on ..	
The Debtor's estimate of amount expected to rank for dividend was £	
Balance	
£	

time retains for more than ten days a sum exceeding £50, he is liable for interest thereon at the rate of 20 per cent. per annum, and also for any expenses occasioned by his default, and may be removed from office. (Sec. 89.)

Power to Disclaim Onerous Property.—By section 54:—

Where any part of the property of the bankrupt consists of land of any tenure burdened with onerous covenants, of shares or stock in companies, of unprofitable contracts, or of any other property that is unsaleable, or not readily saleable, by reason of its binding the possessor thereof to the performance of any onerous act, or to the payment of any sum of money, the trustee, notwithstanding that he has endeavoured to sell or has taken possession of the property, or exercised any act of ownership in relation thereto, but subject to the provisions of this section, may, by writing signed by him, at any time within twelve months after the first appointment of a trustee or such extended period as may be allowed by the Court, disclaim the property.

A trustee is not, however, usually entitled to disclaim a lease except by consent of the Court.

Powers of Trustee to deal with Property.—By section 55 of the Act, it is enacted:—

Subject to the provisions of this Act, the trustee may do all or any of the following things:—

(1) Sell all or any part of the property of the bankrupt (including the goodwill of the business, if any, and the book debts due or growing due to the bankrupt), by public auction or private contract, with power to transfer the whole thereof to any person or company, or to sell the same in parcels.

(2) Give receipts for any money received by him, which receipts shall effectually discharge the person paying the money from all responsibility in respect of the application thereof:

(3) Prove, rank, claim and draw a dividend in respect of any debt due to the bankrupt:

(4) Exercise any powers, the capacity to exercise which is vested in the trustee under this Act, and execute any powers of attorney, deeds and other instruments, for the purpose of carrying into effect the provisions of this Act:

(5) Deal with any property to which the bankrupt is beneficially entitled as tenant in tail in the same manner as the bankrupt might have dealt with it, and sections fifty-six to seventy-three of the Fines and Recoveries Act, 1883, shall extend and apply to proceedings under this Act, as if those sections were herein re-enacted and in terms made applicable to those proceedings.

Powers Exercisable by Trustee with Permission of the Committee of Inspection.—By section 56, the trustee may with the permission of the committee of inspection do all or any of the following things:—

(1) Carry on the business of the bankrupt, so far as may be necessary for the beneficial winding up of the same;

(2) Bring, institute, or defend any action or other legal proceedings relating to the property of the bankrupt;

(3) Employ a solicitor or other agent to take any proceedings or do any business which may be sanctioned by the committee of inspection;
(4) Accept as the consideration for the sale of any property of the bankrupt a sum of money payable at a future time, subject to such stipulations as to security and otherwise as the committee think fit;
(5) Mortgage or pledge any part of the property of the bankrupt for the purpose of raising money for the payment of his debts;
(6) Refer any dispute to arbitration, compromise any debts, claims, and liabilities, whether present or future, certain or contingent, liquidated or unliquidated, subsisting or supposed to subsist between the bankrupt and any person who may have incurred any liability to the bankrupt, on the receipt of such sums, payable at such times, and generally on such terms as may be agreed on;
(7) Make such compromise or other arrangement as may be thought expedient with creditors, or persons claiming to be creditors, in respect of any debts provable under the bankruptcy;
(8) Make such compromise or other arrangement as may be thought expedient with respect to any claim arising out of or incidental to the property of the bankrupt, made or capable of being made on the trustee by any person or by the trustee on any person;
(9) Divide in its existing form amongst the creditors, according to its estimated value, any property which from its peculiar nature or other special circumstances cannot be readily or advantageously sold.

With the permission of the committee of inspection, he may also appoint the bankrupt to superintend the management of the property, or to carry on the business, and may also make him an allowance for the support of himself and family, or in consideration of his services. (Sections 57 and 58.)

Remuneration of Trustee.—By section 82:—

Where the creditors appoint any person to be trustee of a debtor's estate, his remuneration (if any) shall be fixed by an ordinary resolution of the creditors, or, if the creditors so resolve, by the committee of inspection, and shall be in the nature of a commission or percentage, of which one part shall be payable on the amount realised by the trustee, after deducting any sums paid to secured creditors out of the proceeds of their securities, and the other part on the amount distributed in dividend.

Distribution of Dividends.—Section 62 enacts as follows:—

(1) Subject to the retention of such sums as may be necessary for the costs of administration, or otherwise, the trustee shall, with all convenient speed, declare and distribute dividends amongst the creditors who have proved their debts.
(2) The first dividend, if any, shall be declared and distributed within four months after the conclusion of the first meeting of creditors, unless the trustee satisfies the committee of inspection that there is sufficient reason for postponing the declaration to a later date.
(3) Subsequent dividends shall, in the absence of sufficient reason to the ontrary, be declared and distributed at intervals of not more than six months.

Rights of Creditor who has not Proved his Debt.—By section 65:—

Any creditor who has not proved his debt before the declaration of any

dividend or dividends shall be entitled to be paid out of any money for the time being in the hands of the trustee any dividend or dividends he may have failed to receive before that money is applied to the payment of any future dividend or dividends, but he shall not be entitled to disturb the distribution of any dividend declared before his debt was proved by reason that he has not participated therein.

Interest on Debts.—Section 66 provides as follows :—

Where a debt has been proved, and the debt includes interest, or any pecuniary consideration in lieu of interest, such interest or consideration shall, for the purposes of dividend, be calculated at a rate not exceeding five per centum per annum, without prejudice to the right of a creditor to receive out of the estate any higher rate of interest to which he may be entitled after all the debts proved in the estate have been paid in full.

Bankrupt's Right to a Surplus.—This is provided for by section 69 :—

The bankrupt shall be entitled to any surplus remaining after payment in full of his creditors, with interest, as by this Act provided, and of the costs, charges, and expenses of the proceedings under the bankruptcy petition.

Unclaimed Funds or Dividends.—By section 153 (1) :—

Where the trustee, under any bankruptcy composition or scheme, pursuant to this Act or any enactment repealed by this Act, has under his control any unclaimed dividend which has remained unclaimed for more than six months, or where, after making a final dividend, he has in his hands or under his control any unclaimed or undistributed money arising from the property of the debtor, he shall forthwith pay it to the Bankruptcy Estates Account at the Bank of England. The Board of Trade shall furnish him with a certificate of receipt of the money so paid, which shall be an effectual discharge to him in respect thereof.

Any person claiming to be entitled to any moneys in the Bankruptcy Estates Account may apply to the Board of Trade for the same; and if the Board of Trade is satisfied as to the validity of his claim, they order payment to be made to him.

Example.—From the following particulars make out the trustee's *Account of Receipts and Payments* to date of first and final dividend.

RECEIPTS.

Cash deposited with solicitor, £10; Cash in hand, £15 11s. 3d.; Cash at Bank, £104 2s. 9d.; Stock, £8,750 10s. 5d.; Furniture and Fixtures, £320 4s. 6d.; Patents, £2,500; Book Debts, £7,426 15s. 3d.; Bills of Exchange, £2,420 10s. 6d.

PAYMENTS.

Board of Trade and Court Fees, £153 14s. 6d.; Law Costs of Petition, £45 11s. 2d.; Taxed Costs of Accountant and Shorthand Writer, £256 4s. 8d.; Guarantee Premium, £13 13s. (authorised by the Committee to be paid out of the assets); Cost of Notices in *Gazette* and local papers, £5 16s. 3d.; Incidental Outlay Postages: Stationery, etc., £43 9s. 7d.; Allowance to

Debtor, £100; Preferential Creditors for Rent, £300, and Rates, Taxes, and Wages, £240; Liquidator's Remuneration (as fixed by the Committee of Inspection), 3% on £18,997 10s. 2d. Assets realised, and 2% on Dividend distributed to Unsecured Creditors, whose debts amounted to £38,861 9s. 6d.

TRUSTEE'S ACCOUNT OF RECEIPTS AND PAYMENTS.

Dr. To Date of First and Final Dividend *Cr.*

Receipts.	Amount.	Payments.	Amount.
To Cash deposited with Solicitor	10 – –	By Board of Trade and Court Fees	153 14 6
„ Cash in hand	15 11 3	„ Law Costs of Petition	45 11 2
„ Cash at Bank	104 2 9	„ Trustee's Remuneration (as fixed by Committee of Inspection)—	
„ Stock	8,750 10 5	3% on £18,997 10s. 2d. realised	569 18 6
„ Furniture and Fixtures	320 4 6	2% on £19,430 14s. 9d. distributed[1]	388 12 3
„ Patents	2,500 – –	„ Taxed Costs of Accountant and Shorthand Writer	256 4 8
„ Book Debts	7,426 15 3	„ Guarantee Premium	13 13 –
„ Bills of Exchange	2,420 10 6	„ Costs of Notices in *Gazette* and local newspapers	5 16 3
		„ Incidental Outlay— Postages, Stationery, etc.	43 9 7
		Total Costs and Charges	1,476 19 11
		„ Allowance to Debtor	100 – –
		„ Preferential Creditors— Rent	300 – –
		Rates, Taxes, and Wages	240 – –
		„ First and Final Dividend of 10s. in the £ on £38,861 9s. 6d. to Unsecured Creditors	19,430 14 9
	21,547 14 8		21,547 14 8

[1] Ascertained by calculating $\frac{2}{102}$ of £19,819 7s., the *gross* amount distributable between Unsecured Creditors and Trustee

QUESTIONS ON CHAPTER XVIII.

A.

1. What are the laws that govern bankruptcy? What is the object of bankruptcy laws?
2. Where must bankruptcy proceedings be taken?
3. What persons and bodies may be made bankrupt? Can a joint stock company be made bankrupt?
4. What is an act of bankruptcy? Name some of the principal ones.
5. Explain the terms "bankruptcy notice" and "petition." Who presents the petition, the debtor or the creditor?
6. Explain the terms "receiving order," "fraudulent conveyance," "statement of affairs," "composition," "deed of arrangement."
7. What three courses are open to a meeting of creditors?

8. What is meant by the terms "committee of inspection," "bankrupt's public examination?"
9. What is meant by the "discharge" of a bankrupt? What are the conditions governing it?
10. From what debts does a bankrupt's discharge (*a*) release him, (*b*) not release him?

B.

1. Explain the term "undischarged bankrupt." What disabilities attach to such a person?
2. Can a bankruptcy be afterwards annulled? How are joint and separate estates of partners to be treated?
3. How are small bankruptcies dealt with? What is an "administration order?"
4. Give short particulars of the creditors who have to be entered on Lists A, B, and C respectively.
5. Give short particulars of the creditors who have to be entered on Lists D, E, and F respectively.
6. What is meant by "postponed" or "deferred" creditors? Give examples.
7. What are "preferential" creditors, and on what list are their claims entered?
8. What property is entered on List H? What property is retained by the bankrupt?
9. What debts are entered on Lists I and J, and how have they to be classified?
10. What is the purpose of List L, and "Front Sheet"? What is the procedure with the latter?

C.

1. Explain the difference between a Statement of Affairs and a Balance Sheet.
2. What is the object of a Deficiency Account? What are its usual contents?
3. What adjustments of profits and losses are sometimes required when preparing a Deficiency Account?
4. What is a trustee-in-bankruptcy? How is he appointed?
5. What books and accounts must a trustee keep? What is a Record Book?
6. Explain the Bankruptcy Estates Account. Can a trustee pay his receipts into any bank he likes? What penalties attach to a trustee with regard to the keeping of a large cash balance?
7. What power has a trustee with regard to onerous property? Does this power apply to a lease? Name some of the powers of a trustee with regard to property generally.
8. State briefly some of the powers a trustee may exercise with the permission of the committee of inspection.
9. How is the trustee remunerated? How are dividends to be distributed by him? What are the rights of a creditor who has not proved his debt?
10. What provision is made by the Bankruptcy Act, 1914, with respect to the following?—
(*a*) Interest on debts; (*b*) surplus; (*c*) unclaimed dividends or funds.

EXERCISE XVIII.

1. From the following particulars make out the Statement of Affairs of Thos. F. Sellers for submission to his creditors:—

Good Book Debts	£3,872	Partially-secured Creditors	£872
Doubtful ,,	1,500	Estimated Value of Securities	550
Bad ,,	2,500		322
Unsecured Creditors	7,278	Creditors fully secured (estimated value of Securities, £2,500)	2,200
Bills Payable	1,200		
Stock	1,200		
Fixtures	300		
Cash at Bank	150		
Preferential Creditors	267		

Make out his Statement of Affairs, assuming that the Stock, Doubtful Debts, and Fixtures will realise 50% of the value mentioned above.—(*National Union of Teachers.*)

2. Richard Humphrey's Balance Sheet on 31st January was as follows: *Assets:* Sundry Debtors, £106 2s. 3d.; Stock at cost, £395 11s. 9d.; Cash in hand, £1 2s. 11d.; Shop Fittings at cost, £173 12s. 6d. *Liabilities:* Bank Overdraft, £241 19s. 3d.; Trade Creditors, £378 14s.; John Joker, for Rent, £15; Capital, £40 16s. 2d. Being pressed by Creditors, he filed his petition in bankruptcy. On going through the list of Debtors, he found that of the amount entered in the books, £60 11s. 3d. was irrecoverable, and that accounts amounting to £10 11s. 6d. were disputed. He estimated that the Stock, if sold by auction, should realise £315, and that the Shop Fittings would realise £45. His Household Furniture was estimated at £280. He owed to sundry tradesmen £55 4s. 6d., and a year's rent for his dwelling-house at £35 per annum. He also owed £2 1s. 6d. Income Tax, and £8 15s. for Rates. The shop assistant had not received her wages for the previous two weeks at 17s. 6d. a week. Prepare Statement of Affairs.—(*Lancashire and Cheshire Union.*)

3. Prepare a Statement of Affairs from the following particulars of Jonas Johnson, Manufacturer, Burnley, on the 18th March.

	£
Unsecured Creditors	22,100
Fully-secured Creditors	9,870
Partly-secured Creditors	4,764
Securities held by Creditors, fully secured, valued at	12,107
Securities held by Creditors, partly secured, valued at	2,321
Creditors for Rents, Rates, Taxes, and Wages (of which £600 only is preferential)	850
Plant: Book value £12,600, estimated to produce only one-third of this sum.	
Office Furniture, estimated to realise	50
Cash in hand	5
Book Debts:—	
Good, expected to realise	3,000
Doubtful, £500, expected to realise	200
Bad, £300, expected to realise	*nil*
Life Policy on the life of Jonas Johnson, in the Atlas Assurance Co., paid 20 annual premiums of £24 each. Estimated surrender value is ⅔ths of the amount paid in premiums.	

How much in the £ does the estate show?

—(*Lancashire and Cheshire Union.*)

4. From the following particulars prepare a Statement of Affairs and Deficiency Account as on 31st December, for the information of the Creditors of Black & White, who are insolvent:—Cash in hand, £200. Book Debts: Good, £2,000; Doubtful, £300 (estimated to produce, £100); Bad, £500. Stock-in-Trade valued at £1,900. Freehold Property cost £3,000, estimated to produce £2,500; this property is assigned to creditors for £2,300. Shares held £150: these are given as security for a debt of £400. Creditors: Unsecured on open account, £5,000; on Bills Payable, £1,000; partially secured by Shares, £400; fully secured on Freehold Property, £2,300; preferable Claims for Taxes, Wages, and Salaries, £100. Black's drawings, £2,000; White's drawings, £2,850. The business commenced on 1st January, three years ago. Black put into it £2,500 and White £2,900. The first year showed a profit of £3,000, but the next two years showed a loss of £4,300. No provision was made for Bad Debts.—(*National Union of Teachers.*)

5. Thomas Jones having been adjudicated bankrupt, the following Balances appear in his books:—

Cash in hand, £20; Overdrawn at Bank, £150; Stock in Trade (cost £800) estimated at £500; Machinery (cost £500) estimated at £400; Trade Fixtures (cost £300) estimated at £120; Book Debts, Good, £500 (estimated to produce £500); Doubtful, £250 (estimated to produce £100); Bad, £250; Unsecured Creditors, £2,500; Creditors fully secured, £500; estimated Value of Security, £600; Liabilities on Bills, £400; Creditors for Half-year's Rent, £50; Rates and Taxes (12 mos.), £10; Domestic Servants' Wages (3 mos.), £30.

Arrange the above in the form of a Statement of Affairs for presentation to the first meeting of Creditors.—(*National Union of Teachers.*)

6. Prepare Statement of Affairs of Winter & Co., Shippers, who filed their Petition on 29th September.

Books of Partnership showed that there was owing £9,610; included in this are Creditors for £2,560, who hold stock valued at £3,000, and also Creditors for £1,000 who hold stock valued at £565. The Assets consist of Cash in Office, £10; at Bank, £400. Stock-in-Trade, £2,000 (estimated to produce £1,200). Land and Buildings, £1,500 (estimated to realise £1,000). Furniture, etc., £500 (estimated to produce, £250). Preferential Creditors for Wages and Taxes, £90. Good Book Debts, £500. Doubtful Debts, £250 (estimated to realise £100).—(*National Union of Teachers.*)

7. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming:—

Sundry Debtors: Good, £1,280; Doubtful, £2,800 (estimated to produce £1,000); Bad, £700	£4,780
Sundry Freehold Houses, etc. (estimated to produce £2,000)	3,300
Shares: 1,000 Ordinary Shares in the Cable Telegraph Co. valued at par	1,000
Mining and Railway Shares (£2,500 are held as security by partly-secured creditors and the balance by fully-secured creditors)	9,450
Loss through the unsuccessful defence of an action at law	5,420
Business Expenses	3,200
Creditors: Unsecured	16,740
,, Partly secured	5,420
,, Fully secured	3,110
Preferential Claims for Salaries and Rent	500
Private Drawings	1,200

Samuel Hobson: Capital Account	£3,800
Cash at Bank	420
Bills Receivable: Good	800

Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form.—(*London Chamber of Commerce.*)

8. Charles Jackson guarantees a loan of £200 for a friend. Hearing that this friend was in financial difficulties and only able to pay about 10s. in the £ if made bankrupt, and being himself pressed by creditors, he decided to file his petition.

He had a works which had cost recently £1,000; but on this there was a mortgage of £800; Cash at the Bank, £140 2s. 3d.; Cash on hand, £11 10s.; out of which he gave his solicitor £10 on account of costs. His Stock-in-Trade had cost £398 4s. 3d., but he did not think that on forced realisation it would bring in more than £275; his Machinery, etc., he thought, ought to sell for £200 and the Fittings, etc., for £50; after considering his Book Debts carefully, he thought that £118 10s. was good, £296 11s. bad, and £76 4s. 3d. doubtful, perhaps worth £30; he had also a Bill of Exchange for £87 4s.

He had unsecured Creditors for £753 4s. 11d.; he had accepted two accommodation bills of £100, and on reference to his Bill Book found that he had two months before endorsed over William Fletcher's 3 months' bill for £167 5s. to a creditor.

He owed £10 for House Rent, £20 for Income Tax, £29 18s. 3d. for Rates, and £26 16s. 5d. for Wages.

He had also Household Furniture worth £175, and a gold watch and chain worth £15.

Make out in proper form, Charles Jackson's Statement of Affairs.—(*Lancashire and Cheshire Union.*)

9. Fred Jackson, on the 31st March, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors. Prepare the same from the following:—

	Book Value.	*Estimated to Realise.*
	£	£
Leasehold Premises held for 99 years, subject to a payment of Ground Rent £100 per year	10,000	9,000
Book Debts: Good	6,650	6,000
,, ,, Doubtful	500	250
,, ,, Bad	750	—
Fixed Plant and Machinery	4,000	3,000
Stock-in-Trade	2,000	1,400

Cash in hand, £10. Life Insurance Policy for £2,500 at death, subject to a premium of £50 a year due and paid 28th February last, and held by Insurance Co. for a loan of £200; Surrender Value, £500. Household Furniture and Effects, £360. Private and Household Debts, £290. 600 Shares in Cooper & Co., Ltd., of £1 each: 10s. paid up, now quoted at 12s. 6d. per share. Loan of £5,000, secured by a first mortgage on the leasehold at 4½%, the Interest of same being paid to the 31st March. Unsecured Creditors, £15,000. Bankers for Overdraft and Interest £5,000, holding as security a second mortgage on leasehold of £4,000. Loan from E. Taylor, £400, at 5% per annum, interest being paid to 31st March, who holds as security second charge on Life Insurance Policy. Ground Rent of Leasehold accrued since 31st December last.

With the following additional information, prepare a Deficiency Account:—

On the 1st April, three years ago, he had a Capital of £12,000, in

addition to Household Furniture. His Private Drawings, as shown in the Cash Book, were as follows:—

	£
For the first year ended 31st March	4,905
„ second „ „ „ „	4,000
„ third „ „ „ „	5,000

He made a profit in his business in the first year of £5,000, and, in the subsequent years, losses of £3,000 and £935 respectively.—(*Lancashire and Cheshire Union.*)

10. A Liverpool merchant, trading to the West Coast of Africa, finding himself, on 1st July, unable to meet his engagements, asks you to make up a Statement of Affairs for submission to his creditors.

You find his books disclose:—

	£
Unsecured Creditors	8,830
Fully-secured Creditors.	2,352
Who hold security of the cost value of £2,630	
Partly-secured Creditors	37,697
Who hold securities of the cost value of £18,098	
Preferential Creditors	822
Bills Payable	20,066
„ Receivable (discounted) (expected to rank, £1,000)	5,833
Book Debts in England (Good)	1,341
„ „ „ (Doubtful) £170, estimated to produce	85
„ „ „ (Bad) £34, of no value	
Stock in Liverpool at cost, £1,306, estimated at	1,200
„ and Book Debts, *less* Sundry Liabilities, at four Stations on the Coast	36,584
Of which it is estimated there will be a loss on realisation of Stock of £5,638, and of Book Debts of £7,586.	
Four Station Buildings, Plant, Steamers, and Carrying Craft, £40,000, expected to realise	20,000
Office Furniture, £289, estimated to realise	200
Cash in hand	4
„ at Bankers	80

Show his position, and make out his Deficiency Account from 1st July, five years ago, when he had a Capital of £42,000. Profits appear from the books to have been made in first and second years of £5,000 and £4,000 respectively, and losses in the three subsequent years of £2,100, £2,600, and £3,031 respectively, after allowing £2,000 a year for Interest upon Capital and his withdrawals having been at the rate of £4,500 a year.—(*Chartered Accountants.*)

11. Prepare Statement of Affairs on 9th July of "The Sandy Freehold Land Society." Unsecured Creditors, £200,000; Creditors fully secured, £6,000; Property held by secured Creditors, £12,000; Creditors for Rates, Taxes, and Wages (preferential), £300; Bills of Exchange (good), £22; Book Debts £27,000; (Good, £1,000; Doubtful, £25,000 produce, £2,000, Remainder, bad); Property, £56,000; Loans on Mortgage (produce £60,000), £170,000; Office Furniture, etc., £100; Cash at Bankers, £900; at Office, £100.—(*Chartered Accountants.*)

12. Prepare Statement of Affairs and Deficiency Account as on the 10th October, of William Corby.

Cash in hand, £85; Book Debts, £3,472 (estimated to produce £2,869); unfinished Contract in hand (estimated to produce £3,000 over and above the cost of completing it); Plant, Tools, etc., cost £1,880 (estimated to realise £500); Office Furniture (estimated to realise £25); Stock-in-Trade

valued at £1,900; Investments valued £6,200, of which are deposited with bankers as security for loan £5,460; Life Policies for £2,000, of the estimated surrender value of £1,470, subject to advances made by the Insurance Co., amounting to £1,420; Unsecured Creditors on Trade Account, £4,140; Unsecured Creditors for cash advanced, £5,308; W. Smith for two months' Wages due to him as clerk, £30; A. Compton, six months' Salary due to him at £15 per month; Rent recoverable by distress, £45; Bankers for Loans partly secured, £10,134 (estimated value of securities held by bankers, £7,460, viz.: Investments, £5,460, and Lease, £2,000); Capital Account on 1st January, as shown by the books, £189; Loss on Trading from 1st January to 10th October, £374; Loss on Sale of Investments made on 13th June, £200; Drawings, £750.—(*Chartered Accountants.*)

13. Prepare Statement of Affairs and Deficiency Account of Messrs. Jones & Co., on 31st December.

The firm commenced business on 1st January, five years ago, with a Capital of £25,000. The Trading, after charging Interest upon Capital at £1,000 a year, resulted in a Profit for first year of £602, and in Losses in the subsequent respective years of £370, £450, £500, and £700. The Drawings of the Partners were at the rate of £900 a year; and £1,500 had been expended during the five years upon Patents and Experiments, and at the date of Bankruptcy stood in the books at that sum. Unsecured Creditors, £15,050; Creditors partly secured, £19,080 (holding security, as stated by the books, of the value of £18,100, but which is only estimated to realise £6,000); Creditors for Wages, Taxes, etc., £500; Bills Receivable discounted, £2,060 (upon which it is estimated there will be a liability of £280); Stock-in-Trade, £10,100 (which is estimated to realise £8,000); Book Debts, Good, £7,860; Doubtful and Bad, £650 (estimated to realise £178); Land and Buildings, £8,000 (estimated to realise, £5,000); Machinery and Plant, £12,500 (estimated to realise, £5,500); Cash in hand, £2.—(*Chartered Accountants.*)

14. A filed his petition on 31st December, and his Statement of Affairs was composed of the following figures:—

Creditors unsecured	£75,000
,, partly secured by lien on Shares	40,000
,, fully secured by lien on Stock	100
Liability on Bills Receivable (estimated to rank, £3,500)	7,000
Mortgage on Mill	10,000
Creditors payable in full	3,000
Book Debts, Good	20,000
,, ,, Doubtful and Bad (estimated to produce £2,000)	10,000
Consignments, good	5,000
Stock (estimated to realise £40,000)	60,000
Shares (cost and estimated to realise)	16,000
Cash at Bankers	100
Bills of Exchange	1,400
Mill of the value of	11,000
Machinery (estimated to realise £12,000)	15,000
Fixtures (estimated to realise £1,500)	3,000
Cottages (estimated to realise £3,000)	3,500

On 1st January, six years ago, he had a Capital of £50,000. Profits were made in the six years of £20,500, after allowing interest on Capital £10,000, and withdrawals amounted to £63,600.

Prepare the Statement of Affairs and Deficiency Account.—(*Chartered Accountants.*)

15. John Howson is unable to meet his engagements. His liabilities are:—

Underbank Banking Co., Ltd.	£1,200
(As security for which they hold £1,500 Debenture Stock of the Berkshire Railway Co.)	
Unsecured Creditors	4,000
His Father	3,000
(Who holds a Mortgage on the premises.)	
Wages	100
Chief Rent (Half-year)	15
Bills discounted	500
(One-half of which will probably rank against the Estate.)	

And his Assets are—

Buildings, of the value of	2,000
Machinery, of the value of	1,500
Fixtures, etc., of the value of	200
Debenture Stock of the Berkshire Railway Co., value	1,500
Stock, estimated to realise	1,500
Book Debts, Good	1,000
,, ,, Doubtful (estimated to realise £100)	200
,, ,, Bad	150
Cash	15

Prepare the Statement for submission to his Creditors.—(*Chartered Accountants.*)

16. Prepare Statement of Affairs of John Mason from the following particulars at 31st March:—

Freehold Land and Buildings	£5,000,	estimated to produce	£4,500
Book Debts—Good	1,000		
,, ,, —Doubtful	300	,, ,,	100
,, ,, —Bad	500	,, ,,	*nil*
Stock-in-Trade	1,500	,, ,,	1,000
Plant and Machinery	1,200	,, ,,	600
Cash in hand	25		
Household Furniture and Effects	300	,, ,,	180

Mortgage on the above Freehold Land and Buildings, £3,500, @ 5%. The Interest was paid to 31st December last.

Trade Creditors unsecured, £2,500. Cash Creditors unsecured, £1,000.

Bank Overdraft, £1,000 (the Bank holding, as security, a policy for £2,000, payable at death: premium, £50 per annum; surrender value, 31st March, £600). Preferential Creditors for Rent, Rates, Taxes, and Wages, £300.—(*Chartered Accountants.*)

17. Henry Jones filed his petition in bankruptcy on the 30th June. His books showed the following balances:—

Cash in hand	£10	
Fixtures and Fittings	250	
(Estimated to produce £80)		
Stock-in-Trade	1,800	
(Estimated to produce £1,200)		
Sundry Creditors—Open accounts		£2,000
,, ,, —Bills Payable		2,200
,, Debtors	5,000	
Good, £1,000		
Doubtful, £2,000 (estimated at 50%)		
Bank Overdraft		1,200
Capital		1,660
	£7,060	£7,060

Liability on Bills Discounted, £500; £100 expected to rank.

His Household Furniture, etc., was valued at £250.

He owned the house he lived in—it was valued at £750—and he had a mortgage on it of £600 at 4%. Interest paid to 31st December last.

Preferential Creditors amounted to £35 (included in Sundry Creditors), and £15 for Rates on his house.

Prepare a Statement of Affairs.—(*Chartered Accountants.*)

18. A finds, by the following summary of Assets and Liabilities of his business, that he is insolvent, and on 15th October files his own petition in bankruptcy. Prepare his Statement of Affairs for presentation to his creditors.

The Bank's Overdraft is secured by the deposit of deeds representing his Freehold Property (valued for the purposes of the Statement at £6,000), and Dock Warrants for Stock of the value of £2,383 10s. 10d. W. Smith's Loan is secured by an assignment of a policy on A's life valued at £100. There are contingent Liabilities on Bills Discounted amounting to £589 17s. 2d., of which the sum of £229 13s. 5d. is expected to rank. Of the Book Debts, A states that £144 are Bad and £365 Doubtful: he estimates the value of the latter at £178. Of the Bills Receivable, he estimates that the sum of £283 3s. 7d. is Bad. A has Private Debts amounting to £389 5s. 3d., and has Private Assets consisting of the above-named policy and Household Furniture valued at £585.

SUMMARY OF ASSETS AND LIABILITIES

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors	23,598	7	6	Cash in hand	29	2	7
Bank Loan	6,897	3	6	Petty Cash in hand	2	13	9
W. Smith: Loan	589	2	6	Stock at Cost	9,852	8	7
H. Jones: 9 months' Rent to 29th Sept. last	150	–	–	Fixtures and Fittings	329	7	2
				Office Furniture	262	8	–
				Horses and Carts	682	5	–
Rates: 6 months to 31st March last	32	3	6	Sundry Debtors	5,289	3	5
				Bills Receivable	4,283	3	7
				Freehold Property	6,589	2	7
	£31,266	17	–		£27,319	14	8

—(*Chartered Accountants.*)

19. Catchem & Cheetam filed their petition in bankruptcy on 31st December.

Their books showed that they owed £50,000 to Unsecured Creditors, £30,000 to Creditors holding lien on goods for £10,000; £10,000 Mortgage on the Works, and £1,000 for Salaries and Rates. Bills of Exchange for £10,000 had been discounted with their Bankers, and it was estimated that there was a liability in respect of them of £3,000.

Their Assets were:—

Consignments, £20,000 (estimated to realise £2,000). Good Book Debts, £18,000; Doubtful Debts, £6,000 (estimated to realise £3,000); Bad Debts, £15,650. Works, cost £100,000 (depreciated out of Profit and Loss to £75,000), estimated to realise £50,000. Furniture and Fittings, £2,000

(estimated to realise £1,000). Stocks and Work in progress, £25,000 (estimated to realise £18,000). Cash and Bills, £1,350.

They commenced business on 1st January, five years ago, with a capital of £83,000. After charging annually £5,000 for depreciation of the Works, £4,000 for Interest on Capital, and £1,500 for Partners' Salaries, the trading showed profits of £6,500 in first year and £5,000 in second year; and losses of £6,000 in third year, £7,000 in fourth year, and £9,500 in fifth year; while the withdrawals of the partners averaged £5,500 a year.

Draw up Statement of Affairs, and prepare Deficiency Account.—(*Chartered Accountants.*)

20. A trader files his petition in bankruptcy on 30th June, and you are instructed to prepare his Statement of Affairs. The information you are able to obtain as to his position is as follows:—

The Stock-in-Trade at cost is £7,200, of which £600 worth is in the hands of a Creditor for £1,000, who is entitled to exercise a lien. Book Debts: Good, £9,750; Doubtful, £120 (worth 6s. 8d. in the £); Bad, £150; Fixtures and Fittings (after depreciation), £230; Cash in hand, £10. Bills Receivable, £1,100 (held by Bankers against overdraft of £4,000 the balance of which is secured by a second charge on Debtor's freehold property and by the guarantee of his brother). Customers' Bills under Discount, £1,500 (of which £200 is ascertained to be bad and £100 is doubtful). Freehold Property, £3,000 (subject to a first mortgage of £2,000). The Unsecured Creditors amount to £29,800, in addition to claims for Rates, Taxes, and Wages amounting to £240. The Stock-in-Trade and the Book Debts (outside the bills) are estimated to be worth 75 per cent. of their face value, and the Freehold Property (which cost £2,800), is valued at £2,200. Subject to the modifications above stated, the Assets are worth their book values.

You learn that the Debtor had a surplus of Assets of £5,000 on 1st January, two and a half years ago, since when he has withdrawn £3,000 per annum in equal monthly instalments. His profits for year ended 31st December (first year) were £2,100, and for second year £420, since which time he has not made up his books.

From these details you are required to prepare, as nearly as may be in statutory form: (*a*) Statement of Affairs; (*b*) Deficiency Account.—(*Incorporated Accountants.*)

21. Prepare Statement of Affairs and Deficiency Account of Mr. Alfred Sykes, on 31st December. Good Book Debts in England, £6,650; Doubtful, £5,000; Bad, £4,500. Properties: Stock and Book Debts, in Brazil, £32,000; Warehouse in England, £26,000; Stock in Warehouse, £1,000; and at Bleachers' and Finishers', £4,750. Fixtures, Hoist, etc., £500. Cash at Bank, £1; in hand, £5. Creditors, £65,000 (of which £250 is for Wages and Taxes, £20,000 is in respect of a Mortgage on the warehouse building, and £7,500 is for Bleaching and Finishing). Bills Payable, £14,500; and there is a liability of £3,000 in respect of Bills Receivable, which, however, is not expected to rank. Assume that Stock, Doubtful Debts and Fixtures in England will realise two-thirds, and the Properties, Stock, and Book Debts abroad one-half of their face-value. On 1st January, five years ago, he had a Capital of £30,000. After charging Interest thereon at the rate of £1,500 a year, and paying £800 a year for Interest upon the Warehouse Mortgage, in the first three years he made profits of £4,200, £3,700, and £800 respectively; and in the last two years losses of £6,400 and £7,894. His withdrawals amounted to £6,200 a year.—(*Chartered Accountants.*)

22. Prepare Statement of Affairs of Nathan Thorpe, Engineer, on 20th March

	Book Values.	*Estimated to produce.*
Leasehold Premises held for 99 years at £50 a year	£5,000	£4,500
Fixed Machinery and Plant on the said Premises	2,000	1,000
Loose Tools, Plant, etc.	700	350
Stock-in-Trade	1,000	600
Book and other Debts—Good (*less* 5%)	300	285
" " Doubtful	800	200
" " Bad	2,000	

Cash in hand, £5; 500 £1 Shares in the Hole Mine Co., Ltd., 5s. per share paid (balance called up). In liquidation. No return expected. Household Furniture and Effects, £250; Life Insurance Policy for £2,000 at death, subject to premium £35 a year, due 30th December, held by Insurance Co. for Loan of £180. Surrender Value, £200 (*less* loan).

Liabilities: Creditors for Unsecured Trade Debts, £3,000; Private and Household Debts, £150; Loan of £2,000 at 4% secured by First Mortgage on Leaseholds, Interest paid to 20th May last; Bankers for Overdraft secured by second Mortgage on Leaseholds, £2,500; Loan of £1,000 at 5% secured by third charge on Leaseholds, and second charge on Life Insurance Policy. Interest paid to 20th September last; Ground Rent of Leaseholds accrued since 25th March last had not been paid; Rent of Dwelling-house, £30 for half-year due 25th December last; Taxes due 1st January last, £20; Local Rates, £25; Liability on Shares of Hole Mine Co., Ltd., above mentioned; omit calculations on Income Tax.—(*Chartered Accountants.*)

23. Johnson & Caley, Merchants, are unable to meet their obligations. From their books, papers and information supplied by them, the following particulars relative to their affairs are ascertained:—

Cash in hand	£250
Debtors—Good, £1,250; Doubtful, £600 (estimated to produce £200); Bad, £1,000	2,850
Shares in the Straights Shipping Co., Ltd., of par value	5,000
Property, estimated to produce £9,000	14,000
Bills Receivable (Good)	4,250
Other Securities—£3,000 pledged with partly-secured Creditors, and the remainder with fully-secured Creditors	28,000
Johnson's Drawings	9,000
Caley's "	8,400
Sundry Losses	13,500
Trade Expenses	7,400
Creditors—Unsecured	25,000
" Partly Secured	23,900
" Fully Secured	17,000
Preferential Claims—Wages, Salaries, and Taxes	750
Johnson—Capital	10,000
Caley "	16,000

Prepare a Statement of Affairs, showing the Assets, with respect to their realisation; also a Deficiency Account in respect of the deficiency shown by the Statement of Affairs.—(*Chartered Accountants.*)

24. Prepare the respective Balance Sheets of the firm of Robinson Bros., and of the several partners—Alfred, Benjamin, and Charles; after which prepare the respective Statements of Affairs of the firm and the several

partners, giving effect to the rights of holders of securities; accepting the values of Assets as given on 3rd April:—

Trade Creditors, Joint Estate, unsecured	£31,280
Cash " " " "	6,642
" " " " collaterally partly secured by Policies of Assurance	9,015
On the life of Alfred, worth	1,615
" " Benjamin, worth	738
" Creditors, Joint Estate, fully secured	10,435
They holding Securities belonging to the Firm, worth	14,395
Liabilities on Bills Discounted, considered good	1,340
Preferential Creditors of Joint Estate	2,128
Tradesmen's Claims on Separate Estate of Alfred	697
Cash Creditors on Separate Estate of Alfred	2,578
They holding as security Freehold Property of his, worth	3,000
Tradesmen's Claims on Separate Estate of Benjamin	119
" " " " Charles	190
Cash Creditors of Charles, unsecured	510
" at Bank at Credit of Joint Estate	1,050
" in hand " "	843
Debtors " "	2,975
Stock " "	30,155
Fixtures and Furniture "	1,400
Household Furniture, Separate Estate of Alfred	1,000
" " " " Benjamin	1,000
" " " " Charles	500
Reversionary Interest under Will of John Smith, deceased, Separate Estate of Charles, worth	200
Alfred had overdrawn his Account with the Firm by	4,500
Benjamin " " "	3,000
Charles " " "	1,182

—(*Chartered Accountants.*)

25. A business carried on under the style of Wood & Smith finds itself in difficulties and instructs you to prepare a Statement of Affairs for submission to a private Meeting of the Creditors.

The following particulars are obtained from the Books, as at 1st February:—

	£ s. d.	£ s. d.
Unsecured Creditors		23,000 5 6
Loan from A		2,000 – –
Creditors partly secured	4,600 – –	
Estimated Value of Security	4,000 – –	
Preferential Claims		240 12 6
Stock-in-Trade		1,500 8 –
Cash at Bank		270 14 2
" in hand		65 4 10
Fixtures		400 – –
Debtors—Good	820 – –	
" Bad	72 15 9	
" Doubtful	41 5 –	

As regards the separate Estates, Wood had no creditors nor assets, and Smith was a limited partner with £1,000 in the business. With respect to the loan, A. had lent the £2,000 without security, and under an arrangement whereby he was to receive interest varying with the profits.

(*a*) Prepare Statement of Affairs allowing 15% off Stock, 10 % off good Book Debts (assuming that the Bad and Doubtful Debts realised *nil*), and 50% off Fixtures.

(*b*) Append to statement any comments upon transactions, which, in your opinion, require special consideration.—(*Incorporated Accountants.*)

26. A and B carried on business in partnership as Ironmongers, and on 31st December, being in financial difficulties, they called their creditors together and laid before them the following Statement of Affairs:—

Creditors			*Assets*	
Unsecured Creditors		£1,200	Cash in hand	£10
Bank for Overdraft—Unsecured		600	Stock-in-Trade (cost £1,000) estimated to produce	750
Secured Creditor—			Book Debts—Good, £300 do.	300
Loan on Mortgage	£800		,, ,, Doubtful, £100 do.	50
Value of Property contra	1,000		,, ,, Bad, £150 do.	—
			Fixtures and Fittings (cost £500) do.	100
Estimated Surplus to contra	200		Property Valued at £1,000 subject to Mortgage for £800 contra—Estimated Surplus	200
Preferential Creditors for Rent, Wages, etc., to contra	160		A's Estate—Estimated Surplus	150
		£1,800		£1,560
			Deduct Preferential Creditors	160
				£1,400
			Deficiency	400
				£1,800

B's estate showed a considerable deficiency.

The Creditors agreed to accept 12s. 6d. in the £1, and appointed M as Trustee to realise the estate and pay the dividend, his remuneration to be 5% on the amount realised and 5% on the amount distributed. The legal and other costs amounted to £35.

On realisation, the Stock produced £800; the Book Debts, £335; the Fixtures and Fittings, £115; the surplus from the property was £150; and the surplus from A's estate, £120.

Draw up the Trustee's final Statement of Account showing the disposition of the estate.—(*Chartered Accountants.*)

27. Prepare from the following figures and particulars, a Trustee's Cash Account showing the position of the estate of Messrs. Tant & And, against whom a receiving order was made on 19th October, and first and final dividend paid on 28th September following.

The chief assets were Book Debts, which the Debtors estimated to produce £2,144 9s., but which realised £2,135 5s. 11d., and two Life Policies which the Debtors stated were worth £472 19s. 9d., but which realised £565, out of which the Trustee had to pay £375 16s. 6d. to redeem the security. The Cash in hand and at bank amounted to £4 7s. 11d.; some small Investments stated to be worth £55 realised £40 13s. 2d. The Miscellaneous Receipts were £8 12s. 8d. and £5 Deposit on Creditors' Petition.

There were nine Preferential Creditors' Claims amounting to £26 9s. 6d., and a Dividend of 2s. 9½d. in the £ was paid to the unsecured creditors, whose claims amounted to £13,250 4s. 4d.

The other payments amounted to £504 4s. 8d., including Trustees' Remuneration, £206 3s. 6d.; Board of Trade and Court Fees, £123 11s. 5d.; Law Costs, £60 15s. 8d.; Auctioneers' Charges and Incidental Outlay. —(*Incorporated Accountants.*)

28. A Trustee of a bankrupt Estate, with Liabilities of £18,000, has completed his realisation of the Estate, and prepares to close the matter. His receipts have been:—

From Stock-in-Trade	£1,250	From Trading	£7,000
,, Book Debts	3,100	,, Household Furniture	450
,, Jewellery Pledged	700	,, Freehold Buildings	3,000

His payments have been:—

Costs of Petition	£40	Mortgage on Freehold	£2,000
Auctioneers' Costs	180	Board of Trade Fees	80
Shorthand Writers' Charges	15	Notices in *Gazette*, etc.	5
Trading Payments	6,250	To redeem Jewellery	400

The Committee allow the remuneration of the Trustee at a commission of 5% on Assets realised and 3% on Assets distributed. Without providing for further payments, you are required to write up the Estate Cash Book, showing the final close of the Estate. You must assume that all items have been received from or paid to Bank, but analysis columns may be dispensed with.—(*Incorporated Accountants.*)

REVISION EXERCISE XVIII

1. Give Journal entries (with narrations) to record the following:—

Jan. 1. I sold horses to Dodd for £500, receiving cash on account £100 and four Acceptances of £100 each at 1, 2, 3 and 4 months respectively.
,, 3. Discounted Bills due 4th Feb. and 4th March with my Bank and was credited with the proceeds £195.
,, 31. Dodd gave me notice that he could not meet the bill due 4th Feb., and requested that it should not be presented.
Feb. 4. Bank debited my account with the Bill not met.
Apr. 5. Bank credited my account with Bill due 4th inst.
,, 6. Received cash for balance of Dodd's account—the Bill outstanding was cancelled and returned to Dodd.

May 1.	Received First and Final Dividend on Bradley's A/c of 5s. 6d. in £	£2	15	–
,, 2.	James's A/c (previously written off as bad) recovered part	5	–	–
,, 3.	Consigned Goods to Earle, Newcastle	100	–	–
,, 4.	Bought of French on Joint A/c with Brockle—Tea	500	–	–
,, 5.	Received Cash for Brockle's half of transaction	250	–	–
,, 6.	Sold for Cash Tea purchased on Joint A/c with Brockle	700	–	–
,, 6.	I charged Commission and my Expenses on the Joint A/c Sale	18	6	–
,, 7.	Paid Brockle amount due to him	—	–	–

Give copy of the Joint Adventure A/c, showing division of the Profit.—(*Civil Service, Customs and Excise.*)

2. (*a*) What is an Accommodation Bill?
(*b*) Smith has transactions with Jones in accommodation bills. Give the Journal entries with narrations which should be made in the books of Jones to record the following transactions:—
On 1st Jan. Smith draws on Jones at three months for £1,000 and agrees

that the proceeds of the bill should be shared equally. He discounts the acceptance with the London and Joint Stock Bank, Ltd., receiving £990 in cash, of which he hands Jones £495 in cash. On 31st March, in order to provide funds to meet this bill, Jones draws on Smith for £1,100 at three months, and discounts the acceptance with Parr's Bank, receiving £1,090 in cash, and hands Smith £44 in cash. On 29th June, Smith is made a bankrupt. Jones meets both bills. On 31st Dec. a first and final dividend of Smith's estate is declared at 10s. in the £.—(*Civil Service, 2nd Division Clerks.*)

3. (*a*) State the general rules for discriminating between Capital and Revenue expenditure.

A manufacturer buys some Plant and Machinery. The invoice total is £10,655 14s. 6d. Included in this sum is an amount of £250 12s. 8d. for "duplicate parts" of certain intricate and delicate machinery. Is this last item Capital or Revenue expenditure? Give reasons for your answer. How should the amount of the invoice be treated in the books?

(*b*) What are Secret Reserves? How are they made? State briefly the arguments for and against them.

4. The Toilet Requisites Co., Ltd., manufacture and sell two specialities, namely, "Excelsior" Soap and "Nymph" Scent. The net sales are:—Soap Dept., £47,328 14s. 1d.; Scent Dept., £31,552 9s. 5d. The gross profits of the departments are as follows:—Soap, £26,480 3s. 11d.; Scent, £16,660 12s. 2d. You are asked to construct the Profit and Loss Account, and to ascertain the net profit of each department, apportioning the following expenses according to the respective turnovers of the two departments:—

	£	s.	d.
Advertising	10,650	2	1
General Expenses	17,426	10	5
Depreciation, Bad Debts, and Reserves	5,781	7	6

The Managing Director is entitled to a commission of 5 per cent. on the net profit of each department after charging this commission.

5. T. Tompkins, wholesale boot and shoe dealer, has three ledgers, "Bought," "Sales," and "General" respectively, all kept on the self-balancing principle.

(*a*) Rule a suitable form of Cash Book (payments side only), and enter therein the following particulars, analysing them into their proper columns:—

19—		£	s.	d.
Jan. 4.	Paid Wages by cheque	27	13	6
11.	Paid D. Dunlop by cheque	165	18	6
,,	Discount allowed by him	8	14	8
,,	Paid Wages by cheque	31	14	8
13.	Bill Payable due this day duly honoured	270	10	6
16.	Paid E. Ernest by cheque	82	9	–
,,	Discount allowed by him	4	6	9
17.	Drew cheque for Office use	10	–	–
18.	Drew cheque for Self	50	–	–
,,	Paid Wages by cheque	29	2	10
19.	Purchased of B. Brown for Cash, Goods	50	10	5
24.	Bill Receivable £150, due this day (acceptor J. Smith), returned by Bank dishonoured, noting charges 7s. 6d.	150	7	6
25.	Paid F. Franklin by cheque	206	9	6
,,	Discount allowed by him	10	17	4

(*b*) Submit *pro formâ* Bought and Sales Ledger Adjustment Accounts as they would appear in Tompkins' General Ledger.

6. Brown & Robinson are partners dividing their profits in the proportion of three-fourths and one-fourth. Brown's Capital is £15,000 and Robinson's is £10,000. They dissolve partnership and realise the assets standing on the Balance Sheet as follows:—

Stock		£8,000 realised	£7,500
Book Debts	£14,000		
Less Reserve	2,000		
	12,000	„	10,000
Buildings	7,500	„	7,000
Plant and Machinery	8,000	„	3,000
Cash	2,500	„	2,500

Their liabilities are as follows:—

Sundry Creditors	£9,000
Mortgage on Buildings	3,000
Bills Payable	1,000

which are all paid in full.

Prepare a summary of the Cash Account and show the adjustment of the Partners' Accounts.—(*Civil Service, 2nd Division Clerks.*)

7. The Net Profits of Freestone & Co., Ltd., for the year 19— amounted to £20,000. Undistributed Balance from previous year was £5,000; Paid-up Capital in Ordinary Shares, £70,000; Debentures Issued, £30,000; Plant Account, £80,000.

Give Journal entries (with narrations) to give effect to the following:—

(1) Interest at 5% p.a. less tax at 1s. 2d. half-year due 31st Dec. in respect of Debentures to be provided out of profits.

(2) Dividend of 10% declared on the Ordinary Shares for the year less tax at 1s. 2d.

(3) Write off 10% of Plant Account to Depreciation Account.

(4) Separate Banking Account to be opened for the Dividend.—(*Civil Service, Customs and Excise.*)

8. Prepare a Balance Sheet of Black, Kelly & Co., Ltd., on 31st March, from following figures:—

Freehold Land and Buildings, £30,000; Stock on hand, £12,000; Nominal Capital, £100,000.

Issued Capital:—50,000 6% Cumulative Preference Shares of £1 fully paid, £50,000; 10,000 Ordinary Shares of £5, £2 called up, £20,000; Plant and Machinery, £14,000; Mortgage Debentures, £10,000; Additions to Plant, £1,000; Sundry Debtors, £15,000; Cash in hand, £100; Cash at bank, £1,500; Creditors on Open Accounts and Bills Payable (including £35 unclaimed dividends), £4,500; Balance in bank (Dividend Account), £35; Reserve Fund, £500; Bills Receivable, £1,000; Insurance in advance, £50. Amount owing on First Call Account, £100. Profit and Loss A/c:—

Debit Balance from last year	£625
Loss this year	9,590

—(*Civil Service, Customs and Excise.*)

9. The following are the Balances extracted from the books of the Ideal Newspaper Co., Ltd., on 31st Dec., from which you are required to prepare Revenue Account and Balance Sheet; Nominal Capital, £100,000, divided into 40,000 Preference Shares of £1 each, and 60,000 Ordinary Shares of £1 each.

Issued—40,000 Cumulative Preference Shares of £1 each, 7s. 6d. paid	£15,000	Calls in advance	£150
Issued — 60,000 Ordinary Shares of £1 each, 5s. called up	15,000	Calls in arrear	75
		Freehold Property, 1st Jan.	28,000
		Plant and Machinery, 1st Jan.	9,500
		Sundry Creditors	7,300

Returns and unsolds	£2,650
Reserve, 1st Jan.	10,000
Dividends accrued on Investments	300
Cash in hand	130
Liverpool Banking Co., Ltd.	5,295
Sales (cash and credit)	22,650
Advertisements *Cr.*	19,090
Debtors	5,800
Linotype Installation, 1st Jan.	1,300
Linotype Installation, additions made on 30th June	135
Additions to Plant and Machinery, made on 30th June	980
Stock, 1st Jan.	1,750
Investments at cost	6,340
Profit and Loss A/c, 1st Jan. *Cr.*	7,320
Motor-cars, Vans, etc., 1st Jan.	£845
Motor-cars, Vans, etc., additions made on 30th June	90
Purchases of Paper	8,250
Purchases of Ink	475
Salaries	9,230
Wages	1,000
Trade Charges	7,860
Correspondence	4,365
Discounts Allowed	855
Commission	380
Printing and Stationery	110
Free Copies	695
Bad Debts	75
Bank Interest, Dividends, etc. *Cr.*	130
Repairs	155

Reserve for Wages, £48; Discounts, £350; Bad Debts, £200. Depreciate Freehold Property at the rate of 1 per cent. per annum, Plant and Machinery, 7½ per cent. per annum; Linotype installation, 10 per cent. per annum; Motor-vans, 15 per cent. per annum.

The amount received for advertisements includes £180 for advertisements which will not run off until next year. The sales include papers prepaid for next year amounting to £350. Stock-on-hand, 31st Dec., £1,646 15s.—(*Lancashire and Cheshire Union.*)

10. Set out below are the Ledger Balances, as on 31st Dec., of The Sylhet Tea Plantations, Ltd. The nominal capital of the Company consists of 20,000 ordinary shares of £10 each.

There was no Stock on hand on 1st Jan., but at the close of the year (31st Dec.) the tea unsold was valued at £3,854.

The Ledger Balances were as follows:—

Share Capital A/c (Issued 16,200 shares of £10 each, fully paid)	£162,000
Reserve A/c	5,000
Sundry Creditors	8,851
Bills Payable	8,010
Plantations A/c (Land in Sylhet and Buildings thereon)	184,000
Bank Overdraft	1,870
Sundry Debtors	8,400
Machinery and Plant A/c	3,700
Profit and Loss A/c (undistributed balance as on 1st Jan.)	10,500
Dividend paid on 30th June	8,100
Wages (Europeans)	4,400
Wages (Natives)	9,527
Crop Expenses A/c	3,200
Manufacturing Expenses A/c	2,480
Boxes Purchased (the whole to be written off during the year)	£672
Rent and Taxes	543
Machinery Repairs	423
General Charges	331
Hospital Expenses	1,565
Marine Insurance	248
Fire Insurance	120
Law Charges	32
Directors' Fees	350
London Office A/c (Salaries and Expenses)	1,021
Auditor's Fee	52
Freight Charges	2,035
Managers' Commission	1,030
Tea Sales	37,860
Calcutta Agency Expenses	1,745
Transfer Fees Received	5
Cash in hand	122

Before closing the books the following adjustments are necessary:—

(i) Make a provision of 5 per cent. for Bad and Doubtful Debts.

(ii) Provide for depreciation on Machinery and Plant at the rate of 10 per cent.

Prepare a Profit and Loss Account for the year ended 31st Dec. Carry £3,000 to the Reserve Account, and prepare a Balance Sheet.—(*London Chamber of Commerce.*)

11. The Excelsior Manufacturing and Trading Co., Ltd., has a Capital of £80,000 divided into 60,000 Ordinary Shares of £1 each, 10s. per share called, and 20,000 six per cent. Preference Shares of £1 each, fully paid.

The following is the Trial Balance at 31st Dec. :—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Ordinary Share Capital				29,980	–	–
Preference Share Capital				20,000	–	–
Cash in hand	217	11	4			
Cash at Bank	5,650	16	8			
Sales and Purchases	26,120	5	3	52,750	17	5
Returns Out and In	850	14	10	420	10	2
Stock, 1st Jan.	12,200	12	1			
Land and Buildings	11,700	–	–			
Manufacturing Expenses	2,400	7	8			
Machinery and Plant	13,500	–	–			
Creditors and Debtors	26,260	7	2	10,460	8	10
Discounts Received and Allowed	375	3	8	627	2	9
Patents	2,475	–	–			
Rates, Taxes, and Insurance	1,224	8	3			
Calls in Advance and Arrear	30	–	–	50	–	–
Profit and Loss A/c (balance 1st Jan.)				720	15	5
Travellers' Commission and Expenses	1,050	2	1			
Bad Debts Reserve, 1st Jan.				1,030	10	4
Bad Debts	820	10	2			
Salaries	1,265	9	6			
General Expenses	357	1	2			
Interim Ordinary Share Dividend	850	–	–			
„ Preference „ „	600	–	–			
Transfer Fees				15	2	6
Reserve Fund				4,850	–	–
Depreciation	2,075	–	–			
Manufacturing Wages	10,740	4	3			
Forfeited Shares (40 of £1, 5s. paid)				10	–	–
National Insurance Stamps	151	13	4			
	£120,915	7	5	£120,915	7	5

Depreciation has been dealt with. Make a Bad Debts Reserve of 5%. Reserve £250 for Directors' Fees. Transfer £1,000 to the Reserve Fund. The National Insurance Stamps Account represents the purchase of 100 sevenpenny stamps per week for the year. Only 3d. of each 7d. has, however, to be borne by the Company, the other 4d. being recoverable by law from the insured employees. Fourpence per week per man has been deducted from the Wages of 90 workmen and from the Salaries of 10 of the Office staff, but no adjustment has been made in the books. Prepare Trading and Profit and Loss Accounts for the year ended 31st Dec., 19—, and a Balance Sheet as at that date. The Stock at 31st Dec. was £12,7204s. 6d.

CHAPTER XIX

INSURANCE ACCOUNTS

INSURANCE or Assurance is a contract under which the insurer (or assurer or underwriter) undertakes to indemnify the insured or assured against a particular loss or to pay a sum of money on the happening of a certain event. The consideration received by the insurer is a sum of money called the premium, which may be paid either weekly, monthly, yearly, or at any other period according to arrangement.

The chief forms of insurance comprise Life, Fire, Marine, Personal Accident and Employers' Liability, while a large number of insurances are effected annually against risks of Burglary; Loss of Profits; Excessive Bad Debts; Embezzlement, etc.

INSURANCE AND ASSURANCE

The term "assurance" has reference to events which are certain to happen, and is almost exclusively applied in this sense to Life risks. The term "insurance" though also applied to Life risks, is more particularly applicable to those risks which are contingent in their nature, as Fire, Accident, Marine Losses, etc.

POLICY

The Policy is the document embodying the terms of the contract between the insurer and insured.

Insurance Companies constitute a very important section of commercial enterprise, and the majority of them are long-established and financially sound undertakings.

Companies may be divided broadly into two classes—

(1) **Mutual Companies.**—Those in which there are no shareholders in the ordinary sense of the term, the whole of the profits being divided among the policy-holders either in the distribution of bonuses or in reduction of premiums.

(2) **Proprietary Companies.**—Those in which the Capital is subscribed by shareholders, who receive dividends according to the profits made, the policy-holders having no interest in the business except the prompt settlement of their claims, unless (in life

assurance) their policies are indorsed " with profits," in which case they receive a bonus according to the extent of their insurance with the company.

SURRENDER VALUE

On the expiry of three years a life policy possesses what is called " surrender value " : it is a security which has a market value based upon the amount of the premiums paid less deductions for the risk which has already attached to the insurance and for management expenses. The surrender value of a policy in the first few years bears but a small proportion to the premiums paid, but this proportion increases in later years. A Life policy can be deposited as security for a loan, though such security is not favoured by bankers, as the policy lapses and the security disappears if the insured fails to pay the premiums or fails to adhere to the terms of the contract as, for instance, by residing in a forbidden country such as the Gold Coast. In any case the amount of the loan never exceeds the surrender value.

INSURABLE INTEREST

An insurance contract is a contract of indemnity, *i.e.*, the object of insurance is to compensate for any loss suffered and it is not meant to provide a means of gambling on the occurrence or non-occurrence of a particular event, by, otherwise, uninterested persons. Consequently the insured must have an " insurable interest." He must be prejudiced adversely by the occurrence of the event, otherwise the contract is not valid and cannot be enforced in a court of law. A particular illustration of the necessity for insurable interest occurs in Marine Insurance. It was a common practice for insurances to be effected with the members of Lloyd's on overdue vessels, by persons who had no interest at all in the marine adventure which was the subject of the insurance. Such an insurance constitutes a mere gamble on the safe arrival or otherwise of a particular ship, and the practice led to many abuses. The Marine Insurance (Gambling Policies) Act, 1909, was therefore passed, rendering liable, on summary conviction, to imprisonment for a term not exceeding six months, or to a fine not exceeding £100, any person effecting a contract of marine insurance without *bonâ fide* interest or *bonâ fide* expectation of acquiring such an interest in the subject matter insured. The same penalties are also imposed on any broker who, with knowledge of the facts, effects the illegal insurance.

BROKERS

Insurances are mainly effected through insurance brokers, and if the insurance is taken out with a member of Lloyd's, the services of a broker are compulsory.

TARIFF AND NON-TARIFF OFFICES

Tariff offices comprise those which have combined for the purpose of arranging fixed premiums for the various risks undertaken. Non-tariff offices are those outside the "ring," and, not being bound by the minimum rates, sometimes do considerable business as a result of their being able to quote lower premiums.

RE-INSURANCE

With a view to averaging losses, Insurance Companies frequently re-insure with other companies, risks which they have undertaken. A company can only safely undertake risks according to its resources, and if an insurance is required for a risk which would necessitate a departure from this policy, a part of the risk is re-insured with another company at an agreed premium which is usually less than the amount received from the person effecting the original insurance.

PROCEDURE

In life assurance, a proposal form is filled up, on which full particulars are required as to the insured, his general health, longevity or otherwise of parents and any information which will guide the insurer in fixing the premium. The questions must be answered in "utmost good faith," as insurance is a contract in which failure to disclose all material facts avoids the policy. This is, of course, a necessary provision, as the person seeking the insurance is the only one who can provide the information upon which the premium is based.

In marine insurance, the particulars are inserted in a "slip." If the insurance is being effected with a member of Lloyd's, the slip is filled up by the broker, who then approaches various underwriters until the whole amount to be insured is underwritten, the slip being initialled by the underwriters concerned, the share of the risk undertaken in each case being added. The policy is then drafted, embodying the particulars contained in the slip. Should a loss occur before the policy is made out, the slip is produced as evidence of the date when the insurance was effected, but it is necessary to complete the policy before a claim can be made.

The statutory requirements regarding the conduct of insurance

business and the accounts to be kept are given in the Assurance Companies Act, 1909.

The special companies to which reference is made are those concerned with:—

(*a*) Life assurance business; that is to say, the issue of, or the undertaking of liability under, policies of assurance upon human life, or the granting of annuities upon human life;

(*b*) Fire insurance business; that is to say, the issue of, or the undertaking of liability under, policies of insurance against loss by or incidental to fire;

(*c*) Accident insurance business; that is to say, the issue of, or the undertaking of liability under, policies of insurance upon the happening of personal accidents, whether fatal or not, disease, or sickness, or any class of personal accidents, disease, or sickness;

(*d*) Employers' liability insurance business; that is to say, the issue of, or the undertaking of liability under, policies insuring employers against liability to pay compensation or damages to workmen in their employment;

(*e*) Bond investment business; that is to say, the business of issuing bonds or endowment certificates by which the company, in return for subscriptions payable at periodical intervals of two months or less, contract to pay the bond-holder a sum at a future date, and not being life assurance business as hereinbefore defined;

subject as respects any class of assurance business to the special provisions of this Act relating to business of that class. (Section. 1.)

DEPOSIT

Section 2 provides that every assurance company shall deposit and keep deposited with the Paymaster-General for and on behalf of the Supreme Court the sum of £20,000 to be invested in approved securities, the interest accruing to be paid to the company; and the Certificate of Incorporation is not issued until the deposit has been made. Under subsection 4, where a company carries on or intends to carry on, assurance business of more than one class, a separate sum of twenty thousand pounds shall be deposited and kept deposited as respects *each* class of business, and the deposit made in respect of any class of business in respect of which a separate assurance fund is required to be kept, shall be deemed to form part of that fund, and all interest accruing due on any such deposit or the securities in which it is for the time being invested, shall be carried by the company to that fund.

By sections 31-32, however, it is not necessary to make a deposit in respect of fire insurance or in respect of accident insurance in addition to deposits for life assurance and employers' liability insurance in the same company. The subsection dealing with this reads:—

It shall not be necessary to make a deposit in respect of fire insurance business where the company has made a deposit in respect of any other class of assurance business, and where a company, having made a deposit

in respect of fire insurance business, commences to carry on life assurance business or employers' liability insurance business, the company may transfer the deposit so made to the account of that other business, and after such transfer the deposit shall be treated as if it had been made in respect of such other business.

Other subsections make similar provisions regarding accident insurance.

In the same way in connection with the two classes of business—fire and accident, the provisions regarding the necessity of keeping separate funds into which all receipts are paid, do not apply.

With regard to employers' liability, as soon as the employers' liability fund set apart for the satisfaction of the claims of policy-holders of that class amounts to forty thousand pounds, the Paymaster-General shall, if the company has made a deposit in respect of any other class of assurance business, return to the company the money deposited in respect of its employers' liability insurance business, and it shall not be necessary thereafter, for the company to keep any sum deposited in respect of that business, so long as the sum deposited in respect of any other class of assurance business is kept deposited. (Section 33 (1) (*e*).) The provisions of this subsection apply also to Bond Investment Business.

Summarised, the above sections provide:—

Life Assurance and *Employers' Liability Insurance.*	Separate deposits and separate funds are necessary.
Employers' Liability and *Bond Investment.*	As soon as the separate funds in each case amount to £40,000, the deposit is returned, if a deposit is maintained in respect of any other class of business.
Fire and *Accident.*	Neither deposit nor separate fund is required if there already exist deposits and funds in connection with any other class of business.

ACCOUNTS AND BALANCE SHEET

By section 4 it is provided that every assurance company shall, at the expiration of each financial year of the company, prepare :—

(*a*) A revenue account for the year in the form or forms set forth in the First Schedule to this Act and applicable to the class or classes of assurance business carried on by the company ;

(*b*) A profit and loss account in the form set forth in the Second Schedule to this Act, except where the company carries on assurance business of one class only and no other business ;

(*c*) A balance sheet in the form set forth in the Third Schedule to this Act.

The forms of account referred to are as on following pages.

SCHEDULES

FIRST SCHEDULE

N.B.—Where marine insurance business or sinking fund or capital redemption insurance business is carried on, the income and expenditure thereof to be stated in like manner in separate accounts. Any additional businesses (including employers' liability insurance business transacted out of the United Kingdom) to be shown in a separate inclusive general account.

(A.)—*Form applicable to Life Assurance Business.*

Revenue Account of the.....for the Year ending.....in respect of Life Assurance Business.

	Business within the United Kingdom.	Business out of the United Kingdom.	Total.		Business within the United Kingdom.	Business out of the United Kingdom.	Total.
	£ s. d.	£ s. d.	£ s. d.		£ s. d.	£ s. d.	£ s. d.
Amount of life assurance fund at the beginning of the year	—	—		Claims under policies paid and outstanding—			
Premiums—				By death			
Consideration for annuities granted				By maturity			
				Surrenders, including surrenders of bonus			
Interest, dividends, & rents £ s. d.				Annuities			
Less income tax thereon .	—	—		Bonuses in cash			
				Bonuses in reduction of premiums .			
Other receipts (accounts to be specified) . . .	—	—		Commission			
				Expenses of management . . .	—	—	
				Other payments (accounts to be specified)	—	—	
				Amount of life assurance fund at the end of the year, as per Third Schedule .	—	—	
£				£			

NOTE 1.—Companies having separate accounts for annuities to return the particulars of their annuity business in a separate statement.

NOTE 2.—Companies having both Ordinary and Industrial branches to return the particulars of the business in each department separately.

NOTE 3.—Items in this Account to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the Company's risks.

NOTE 4.—If any sum has been deducted from the expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

NOTE 5.—Particulars of the new life assurances effected during the year of account to be appended to the above Account showing separately, as respects business within and business out of the United Kingdom, the number of policies, the total sums assured, the amount received by way of single premiums, and the amount of the yearly renewal premium income, the items to be net amounts after deduction of the amounts paid and received in respect of re-assurances of the company's risks. The particulars as to yearly renewal premium income need not be furnished in respect of Industrial business.

NOTE 6.—The columns headed "Business out of the United Kingdom," in the case of companies having their head office in the United Kingdom, apply only to business secured through Branch Offices or Agencies out of the United Kingdom.

(B.)—*Form applicable to Fire Insurance Business*

Revenue Account of the_____for the Year ending_____19____in respect of Fire Insurance Business.

	£ s. d.	£ s. d.		£ s. d.
Amount of fire insurance fund at the beginning of the year—			Claims under policies paid and outstanding	
Reserve for unexpired risks . . .			Commission	
Additional reserve (if any) . . .			Expenses of management . . .	
Premiums			Contributions to fire brigades . .	
Interest, dividends, and rents	£ s. d.		Other payments (accounts to be specified)	
Less income tax thereon			Amount of fire insurance fund at the end of the year as per Third Schedule—	£ s. d.
Other receipts (accounts to be specified)			Reserve for unexpired risks being per cent. of premium income for the year .	
			Additional Reserve (if any) . . .	
	£			£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(C.)—*Form applicable to Accident Insurance Business*

Revenue Account of the_____for the Year ending_____19____in respect of Accident Insurance Business.

	£ s. d.	£ s. d.		£ s. d.	£ s. d.
Amount of accident insurance fund at the beginning of the year—			Payments under policies, including medical and legal expenses in connection therewith		
Reserve for unexpired risks . . .			Commission		
Total estimated liability in respect of outstanding claims . .			Expenses of management . . .		
Additional reserve (if any) . . .			Other payments (accounts to be specified)		
				£ s. d.	
Premiums—			Amount of accident insurance fund at the end of the year as per Third Schedule—		
	£ s. d.		Reserve for unexpired risks being per cent. of premium income for the year .		
Interest, dividends, and rents			Total estimated liability in respect of outstanding claims as per Fourth Schedule (C) .		
Less income tax thereon			Additional reserve (if any) . . .		
		£			£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(D.)—*Form applicable to Employers' Liability Insurance Business*

Revenue Account of the_____for the Year ending_____19____in respect of Employers' Liability Insurance Business transacted within the United Kingdom.

	£ s. d.	£ s. d.		£ s. d.
Amount of employers' liability insurance fund at the beginning of the year—			Payments under policies, including medical and legal expenses in connection therewith	
Reserve for unexpired risks . . .			Commission	
Total estimated liability in respect of outstanding claims. . .			Expenses of management . . .	
Additional Reserve (if any)			Other payments (accounts to be specified)	
Premiums			Amount of employers' liability insurance fund at the end of the year, as per Third Schedule—	£ s. d.
Interest, dividends, and rents	£ s. d.		Reserved for unexpired risks, being per cent. of premium income for the year .	
Less income tax thereon			Total estimated liability in respect of outstanding claims, as per Fourth Schedule (D) .	
Other receipts (accounts to be specified)			Additional reserve (if any)	
	£			£

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

(E.)—*Form applicable to Bond Investment Business*

Revenue Account of the_____for the Year ending_____19____in respect of Bond Investment and Endowment Certificate Business.

	£ s. d.	£ s. d.		£ s. d.
Amount of Bond Investment and Endowment Certificate Fund at the beginning of the year			Claims under bonds and certificates, paid and outstanding	
Additional reserve (if any) .			Commission	
Premiums			Expenses of management . . .	
Interest, dividends, and rents			Other payments (accounts to be specified)	
Less income tax thereon			Amount of Bond Investment and Endowment Certificate Fund at the end of the year as per Third Schedule	
Other receipts (accounts to be specified) .			Additional reserve (if any) ,	
	£		£	

NOTE 1.—Items in this Account to be the net amounts after deduction of the amounts paid and received in respect of re-insurances of the Company's risks.

NOTE 2.—If any sum has been deducted from the Expenses of management account, and taken credit for in the Balance Sheet as an asset, the sum so deducted to be separately shown in the above Account.

Section 4.

SECOND SCHEDULE

PROFIT AND LOSS ACCOUNT OF THE FOR THE YEAR ENDING 19 .

	£ s. d.		£ s. d.
Balance of last year's account		Dividends and bonuses to shareholders . .	
Interest and dividends not carried to other accounts . . . . £ s. d.		Expenses not charged to other accounts . .	
Less income tax thereon		Loss realised (accounts to be specified) . .	
Profit realised (accounts to be specified) . .		Other payments (accounts to be specified) .	
Other receipts (accounts to be specified) . .		Balance as per Third Schedule	
£		£	

Balance Sheet of the _____ on the _____ 19____

Liabilities.	£	s.	d.
Shareholders' capital paid up (if any) . . . £			
Life assurance funds*—			
Ordinary branch			
Industrial do.			
Annuity fund*			
Fire insurance fund			
Accident insurance fund			
Employers' liability insurance fund . . .			
Bond investment and endowment certificate fund			
Marine insurance fund			
Sinking fund and capital redemption fund .			
Profit and loss account			
Other funds (if any) to be specified . . .			
£			
Claims admitted or intimated but not paid† .			
Life assurance			
Fire insurance			
Bond investment			
Annuities due and unpaid†			
Other sums owing by the company† (to be stated separately under each class of business).			
£			

Assets.	£	s.	d.
Mortgages on property within the United Kingdom . .			
Do. do. out of the United Kingdom . .			
Loans on parochial and other public rates . . .			
Do. Life interests			
Do. Reversions			
Do. Stocks and shares			
Do. Company's policies within their surrender values			
Do. Personal security			
Investments—			
Deposit with the High Court (securities to be specified)			
British Government securities			
Municipal and county securities, United Kingdom .			
Indian and Colonial Government securities . .			
Do. provincial securities . .			
Do. municipal do. . . .			
Foreign Government securities			
Do. provincial securities			
Do. municipal do.			
Railway and other debentures and debenture stocks—Home and Foreign			
Railway and other preference and guaranteed stocks			
Do. ordinary stocks			
Rent charges			
Freehold ground rents			
Leasehold do.			
House property			
Life interests			
Reversions			
Agents' balances			
Outstanding premiums†			
Do. interest, dividends, and rents† . .			
Interest accrued but not payable†			
Bills receivable			
Cash—			
On deposit			
In hand and on current account			
Other assets (to be specified)			
£			

* Life companies having separate annuity fund to show amount thereof separately.

† These items are or have been included in the corresponding items in the First Schedule.

NOTE 1.—When part of the assets of the company are specifically deposited, under local laws, in various places out of the United Kingdom, as security to holders of policies there issued, each such place and the amount compulsorily lodged therein must be specified in respect of each class of business, except that, in the case of fire, accident, or employers' liability insurance business, it shall be sufficient to state the fact that a part of the assets has been so deposited.

NOTE 2.—A Balance Sheet in the above form must be rendered in respect of each separate fund for which separate investments are made.

NOTE 3.—The Balance Sheet must state how the values of the Stock Exchange securities are arrived at, and a certificate must be appended, signed by the same persons as sign the Balance Sheet, to the effect that in their belief the assets set forth in the Balance Sheet are in the aggregate fully of the value stated therein, less any investment reserve fund taken into account. In the case of a company transacting life assurance business or bond investment business, this certificate is to be given on the occasions only when a statement respecting valuation under the Fourth Schedule is made.

NOTE 4.—In the case of a company required to keep separate funds under section 3 of this Act, a certificate must be appended, signed by the same person as signed the Balance Sheet and by the auditor, to the effect that no part of any such fund has been applied, directly or indirectly, for any purpose other than the class of business to which it is applicable.

ACTUARIAL REPORT

Section 5 provides that every assurance company shall once in every five years or at such shorter intervals as may be prescribed by the instrument constituting the company or by its bye-laws, cause an investigation to be made into its financial condition, including a valuation of its liabilities, by an actuary, such abstract to be made in the forms provided. In drafting the forms for this purpose, the following are in brief the particulars necessary :—

(1) Date.

(2) The general principles adopted in the valuation and the method followed in the valuation of particular classes of assurances, including a statement of the method by which the net premiums have been arrived at.

(3) The tables of mortality used in the valuation.

(4) The rate or rates of interest assumed in the calculations.

(5) The actual proportion of the annual premium income, if any, reserved as provision for future expenses and profits.

(6) The consolidated revenue account since the last valuation, or since the commencement of business if within five years, in the following form :—

VALUATION BALANCE SHEET of_____as at_____19___

Dr.	£	*Cr.*	£
To net liability under Life Assurance and Annuity transactions (as per summary statement provided in Fourth Schedule (A))		By Life Assurance and Annuity funds (as per balance sheet under Schedule 3) . .	
To surplus, if any . .		By deficiency, if any . .	

(7) The liabilities of the company under life policies and annuities at the date of the valuation, showing the number of policies, the amount assured, and the amount of premiums payable annually under each class of policies, both with and without participation in profits ; and also the net liabilities and assets of the company with the amount of surplus or deficiency.

(8) The principle upon which the distribution of profits among the shareholders and policy-holders is made.

(9) The results of the valuation showing the profits made and how appropriated and the basis of the distribution of bonuses.

In the case of Accident Insurance Business, the particulars required consist of :—

A Statement of the estimated liability in respect of outstanding claims arising in the year of account and in the preceding year

or years computed as at the end of the year of account, with particulars as to the number and amount of the claims actually paid in the intervening period.

In connection with **Employers' Liability Insurance**, a Statement is required of :—

The estimated liability in respect of outstanding claims arising during each of the five years preceding the year of account and in such year, computed as at the end of the year in which the claims arose, with particulars as to the number and amount of the claims actually paid in the intervening period.

WINDING UP

Section 15 provides as follows :—

The Court may order the winding up of an assurance company, in accordance with the Companies (Consolidation) Act, 1908, and the provisions of that Act shall apply accordingly, subject, however, to the following modification :—

The company may be ordered to be wound up on the petition of ten or more policy-holders owning policies of an aggregate value of not less than ten thousand pounds ;

Provided that such a petition shall not be presented except by the leave of the Court, and leave shall not be granted until a *primâ facie* case has been established to the satisfaction of the Court, and until security for costs for such amount as the Court may think reasonable has been given.

By section 23 :—

Any assurance company which makes default in complying with any of the requirements of this Act shall be liable to a penalty not exceeding one hundred pounds, or, in the case of a continuing default, to a penalty not exceeding fifty pounds for every day during which the default continues, and every director, manager, or secretary, or other officer or agent of the company who is knowingly a party to the default shall be liable to a like penalty ; and, if default continue for a period of three months after notice of default by the Board of Trade (which notice shall be published in one or more newspapers as the Board of Trade may, upon the application of one or more policy-holders or shareholders, direct), the default shall be a ground on which the Court may order the winding up of the company, in accordance with the Companies (Consolidation) Act, 1908.

Example.—From the following particulars prepare Revenue Accounts and Balance Sheet of the Excelsior Life Insurance Co., Ltd., for the year ending 31st Dec., 19..

Mortgages on property within the United Kingdom	£9,350,000
Deposit with the Supreme Court—Securities	20,000
British Government Securities	4,900,000
Foreign Government Securities	5,100,000
Indian and Colonial Government Securities	6,550,000
Freehold and Leasehold Property (including the Company's offices at cost less depreciation)	1,950,000
Life Interests	1,125,000
Reversions	82,500

Freehold Ground Rents	£2,850,000
Leasehold Ground Rents	7,500
Loans on parochial and other public rates	12,250,000
Loans on company's policies within their surrender values	2,825,000
Shareholders' Capital (20,000 shares of £50 each fully paid)	1,000,000
Claims admitted or intimated, but not paid	125,500
Railway and other Debentures and Debenture Stocks	8,081,000
Railway, Gas, and Water Co. Stocks	4,350,000
Sundry Crs.	750
Cash on Deposit	200,000
Cash in hand and on current account	245,363
Annuities due and unpaid	3,000
Outstanding Premiums	223,500
Outstanding Dividends, Interest, and Rents	250,000
Furniture and Fixtures	22,950
Policy Stamps	4,000
Interest accrued but not payable	250,000
Agents' Balances	290,000
Investment Reserve Fund	1,000,000

(1) Industrial Branch

Life Assurance Fund, 1st Jan., 19—	23,500,000
Claims under Policies, paid and outstanding	2,150,000
Fines, Fees, etc.	5,000
Surrenders, including surrenders of Bonus	135,000
Bonus to Superintendents and Agents	27,000
Premiums	4,355,000
Commission	1,215,000
Dividends and Bonus to Shareholders	450,000
Management Expenses	745,000
Interest, Dividends, and Rents	£1,220,400, less Tax £71,190

(2) Ordinary Branch

Life Assurance Fund, 1st Jan., 19..	31,450,000
Claims under policies paid and outstanding (after deduction of sums re-assured) :—	
(*a*) by deaths	940,000
(*b*) by endowments matured	1,140,000
Assignment Fees, Fines, etc.	6,000
Surrenders, including surrenders of Bonus	315,000
Bonus in cash to Policy-holders	105,000
Premiums (after deduction of re-assurance premiums)	3,950,000
Commission	215,000
Management Expenses	95,000
Interest, Dividends and Rents	£1,435,080, less Tax £83,713
Transfer to Investment Reserve Fund	205,000

(3) Annuity Account

Amount of Fund at 1st Jan., 19..	715,000
Consideration for Annuities granted	115,000
Interest, Dividends, and Rents	£38,040, less Tax £2,219
Annuities	95,000
Surrenders	600
Commission	1,135
Expenses of Management	1,100

REVENUE ACCOUNTS

FOR THE YEAR ENDING 31ST DEC., 19..

(1) INDUSTRIAL BRANCH

Life Assurance Fund at 1st Jan., 19..	£23,500,000	Claims under Policies, paid and outstanding	£2,150,000
Premiums	4,355,000	Surrenders, including surrenders of Bonus	135,000
Interest, Dividends, and Rents—		Bonus to Superintendents and Agents	27,000
Gross £1,220,400		Commission	1,215,000
Less Tax 71,190		Management Expenses	745,000
	1,149,210	Bonus and Dividends to Share-holders	450,000
Fines, Fees, etc.	5,000	Life Assurance Fund at end of year	24,287,210
	£29,009,210		£29,009,210

(2) ORDINARY BRANCH

Life Assurance Fund at 1st Jan., 19—	£31,450,000	Claims under Policies, paid and outstanding (less re-assurances)	
Premiums (less re-assurances)	3,950,000	(*a*) by deaths	£940,000
Interest, Dividends, and Rents—		(*b*) by endowments	1,140,000
Gross £1,435,080		Surrenders, including surrenders of Bonus	315,000
Less Tax 83,713		Bonus in Cash to Policy-holders	105,000
	1,351,367	Commission	215,000
Assignment Fees, Fines, etc.	6,000	Management Expenses	95,000
		Transfer to Investment Reserve Fund	205,000
		Life Assurance Fund at end of year	33,742,367
	£36,757,367		£36,757,367

(3) ANNUITY ACCOUNT

Amount of Fund at 1st Jan., 19..	£715,000	Annuities	£95,000
Consideration for Annuities granted	115,000	Surrenders	600
Interest, Dividends, and Rents—		Commission	1,135
Gross 38,040		Management Expenses	1,100
Less Tax 2,219		Amount of Fund at end of year	767,986
	35,821		
	£865,821		£865,821

BALANCE SHEET AS AT 31ST DEC., 19—

Liabilities		*Assets*	
Shareholders' Capital	£1,000,000	Mortgages on Property within the United Kingdom	£9,350,000
Life Assurance Funds—		Loans on Parochial and other Public Rates	12,250,000
Industrial Branch	24,287,210	Loans on Company's Policies within their surrender values	2,825,000
Ordinary Branch	33,742,367	Investments—	
Annuity Fund	767,986	Deposit with Supreme Court	20,000
Investment Reserve Fund	1,000,000	British Govt. Securities	4,900,000
Total Funds	60,797,563	Indian and Colonial Government Securities	6,550,000
Claims admitted or intimated but not paid	125,500	Foreign Government Securities	5,100,000
Annuities due and unpaid	3,000	Railway and other Debentures and Debenture Stocks—home and foreign	8,081,000
Sundry Creditors	750	Railway, Gas, and Water Co. Stocks	4,350,000
		Freehold Ground Rents	2,850,000
		Leasehold Ground Rents	7,500
		Freehold and Leasehold Property (including company's offices at cost less depreciation)	1,950,000
		Life Interests	1,125,000
		Reversions	82,500
		Agents' Balances	290,000
		Outstanding Premiums	223,500
		Outstanding Dividend, Interest, and Rents	250,000
		Interest accrued not payable	250,000
		Cash on deposit	200,000
		Cash in hand and on Current A/c	245,363
		Furniture and Fixtures	22,950
		Policy Stamps	4,000
	£60,926,813		£60,926,813

QUESTIONS ON CHAPTER XIX

1. Explain the characteristics of the two classes of life assurance companies —Mutual Companies and Proprietary Companies.

2. What is the "surrender value" of a life policy? Upon what is such value based?

3. What is an "insurable interest"? Explain by reference to examples. Give particulars of marine insurance legislation passed with reference to the necessity of such "interest" and state the object of passing the same.

4 Explain "Non-tariff" office; re-insurance "proposal form"; "slip."

5. Describe the procedure in effecting a marine insurance.

6. To what classes of insurance does the Assurance Companies Act, 1909, apply?

7. Give the substance of the provisions of the above Act regarding separate Deposits and separate Funds for each of the various classes of insurance, with particular reference to the cases where it is not obligatory to keep separate Deposits and separate Funds in respect of *each* and *every* class of business in one company.

8. What are the statutory provisions regarding the preparation of yearly accounts? Give an outline of Revenue Account in respect to life assurance.

9. At what periods are the profits ascertained and what information must be supplied at the quinquennial audit?

EXERCISE XIX

1. The Steadfast Assurance Co., Ltd., was registered in 19.., and during that year the whole of the Share Capital (consisting of 100,000 shares of £1 each) was paid up in full. Submit *pro formâ* accounts for the year ended 31st December, in accordance with the provisions of the Assurance Companies Act, 1909; and point out wherein the form of the prescribed accounts varies from that usually employed by Companies registered under the Companies Acts.—(*Royal Society of Arts, Accounting and Banking.*)

2. On 31st December, the balances of the General Ledger of the Holdfast Assurance Co. were as follows:—

Funds as on 1st January, £1,557,060; Premium Account, £142,000; Claims Account, £70,050; Annuities Paid, £1,260; Commission Account, £6,032; Interest and Dividends Account, £51,000; Transfer Fees Account, £105; Surrenders Account, £11,201; Management Expenses Account, £18,670; Shareholders' Dividends Account, £2,500; Claims admitted but not paid Account, £7,200; Sundry Creditors Account, £3,980; Mortgages in the United Kingdom, £1,201,450; Loans on Policies, £50,060. Investments: Government Stocks, £204,000; British Railways, £138,200; House Property, £7,500; Agents' Balances, £12,200; Outstanding Premiums, £9,200; Outstanding Interest, £12,040; Cash at Bank, £16,982.

Prepare Revenue Account and Balance Sheet as on 31st December. —(*London Chamber of Commerce.*)

3. Give a form (or forms) of ruling of a Cash Book, suitable for the record of the Receipts and Payments of a Life Assurance Co. with a large business and many agencies.—(*Royal Society of Arts, Accounting and Banking.*)

4. Prepare, in the proper statutory form, the Revenue Account of the Minster Assurance Co., Ltd., for the year ended 31st December, from the following figures:—

Claims: By death, £76,140; by maturity, £30,110. Premiums, £705,690. Transfer Fees, £129. Consideration for Annuities granted, £82,127. Annuities paid, £53,461. Bonuses paid in Cash, £2,416. Expenses of Management, £31,920. Commission, £9,574. Interest, Dividends, and Rents, £97,840. Income Tax thereon, £5,710. Surrenders, £13,140. Bonuses in reduction of Premiums, £980. Dividends paid to Shareholders, £5,500. Amount of Life Assurance Fund at the beginning of the year, £1,521,000.—(*London Chamber of Commerce.*)

5. The undermentioned figures have been extracted from the books of the Thamesmouth Life Assurance Co., Ltd., as on 31st December.

Amount of Life Assurance Fund at the beginning of the year	£1,650,540
Fines for revival of Policies	620
Expenses of Management	86,460
Amount of Life Assurance Fund at the end of the year	1,810,120

Prepare the Revenue Account of the Company in the form required by Statute, inserting imaginary figures for the remainder of the items you would expect to find in such an account.—(*Royal Society of Arts, Accounting and Banking.*)

6. From the following figures relating to the Devonshire Life Assurance Co., compile its Revenue Account and Balance Sheet for the year ending 31st December, in the prescribed form. Shareholders' Capital £250,000 in 2,500 shares of £100 each, with £10 paid up on each.

Shareholders' undivided Profits	£33,786
Life Assurance Fund on 1st Jan., including paid-up Capital and undivided Profits	1,825,412
Claims by death	93,067
,, matured by survivance	47,466
Surrenders	8,636
Commission	8,224
Premiums	134,872
Interest, Dividends, and Rents received	72,563
Management Expenses	25,860
Dividends to Shareholders	3,265
Fines and Fees	201
Income Tax	3,525
Written off Securities upon Re-valuation	17,089
Mortgages in United Kingdom	172,332
Loans on Company's Policies	£90,152
Freehold Ground Rents	1,218,310
Claims admitted, but not paid	5,846
Claims announced—not admitted	22,846
Colonial Government Securities	147,259
Railway Shares, etc.	74,145
House Property	105,292
Agents' Balances outstanding	19,976
Outstanding Interest and Rents receivable	16,968
Outstanding Premiums—Head Office	1,465
Sundry Creditors	142
Cash in hand and at Bank	5,994
Furniture and Fittings	2,857

—(*National Union of Teachers.*)

7. How are the profits of a Life Assurance Co. ascertained? Give a specimen of the form of account usually employed, and illustrate your answer by means of imaginary figures.—(*London Chamber of Commerce.*)

8. Are Assurance Companies under any statutory obligations with regard to their annual accounts?

From the undermentioned figures, prepare the Revenue Account of the East Coast Assurance Co., Ltd., for the year ended 31st December, and state the amount of the Life Assurance Fund as on that date.

Amount of Life Assurance Fund at the beginning of the year	£2,567,000
Surrenders	9,462
Premiums	620,500
Consideration for Annuities granted	38,450
Bonuses paid in cash	7,480
Expenses of Management	18,750
Interest and Dividends	£64,500
Income Tax paid thereon	3,762
Annuities paid	21,640
Commission	10,700
Fines for revival of Policies	120
Claims (by death)	12,500
,, (by maturity)	27,800
Dividends paid to Shareholders	10,450

—(*London Chamber of Commerce.*)

9. The following are the Ledger Balances of a Life Assurance Society on 31st December, and include a year's transactions. The Assurance Fund is excluded:—

Premiums received	£60,000
Interest, Dividends, and Rents (*Cr.*)	30,000
Claims paid and outstanding	60,000
Surrendered Policies	5,000
Commission	2,000
Management Expenses	5,000
Depreciation of Investments	7,000
Capital	30,000
Claims admitted, but not paid (*Cr.*)	11,000
Sundry Creditors	£1,000
Mortgages	90,000
Loans on Life Interests, Reversions, etc.	350,000
Investments	400,000
Outstanding Premiums (good)	6,000
,, Interest	1,000
Cash in hand and with Bankers	15,000

Prepare a Balance Sheet and Revenue Account in the form prescribed by the Assurance Companies Act, 1909, showing the Assurance Fund as on 31st December, and state by how much it has increased during the year. —(*Chartered Accountants.*)

10. Prepare a Revenue Account and Balance Sheet from the following list of balances in the books of a Life Assurance Co. :—

Assurance Fund at the beginning of the year	£3,600,000	Leasehold Ground Rents (Investments)	£6,000
Annuities Paid	12,500	Mortgages within the United Kingdom	800,000
Bonuses to Policy-holders	15,000	Mortgages on Rates	1,200,000
British Government Securities	190,000	Other Sums owing by the Company	1,200
Consideration for Annuities granted	14,000	Outstanding Premiums and Agents' Balances	56,000
Claims Admitted, but not paid	14,500	Outstanding Interest (receivable)	57,000
Claims Paid	280,000	Premiums	460,000
Commission Paid	27,000	Premises and Furniture	26,000
Cash at Bank	45,000	Reserve Fund	150,000
Expenses of Management	37,000	Rent Charges (Investments)	36,200
Indian and Colonial Government Securities	110,000	Railway and other Debentures	1,150,000
Interest and Rents received	130,000	Surrenders	42,000
Loans on Company's Policies	280,000		

—(*Chartered Accountants.*)

11. From the following Trial Balance prepare Balance Sheet and Revenue Account of the Life Assurance Society.

Mortgages on Property within the United Kingdom	£400,000	Surrenders on Business within the United Kingdom	£20,000
Mortgages on Property out of the United Kingdom	50,000	Surrenders on Business outside the United Kingdom	1,000
Loans on Life Interests	100,000	Cash in hand	50,000
,, on Reversions	200,000	Claims admitted, but not paid *Cr.*	10,000
,, on Society's Policies within their surrender values	600,000	Claims on Business within the United Kingdom	200,000
Investments—		Claims on Business outside the United Kingdom	10,000
Municipal Securities, United Kingdom	500,000	Sundry Creditors	15,000
Indian and Colonial Government Securities	1,000,000	Amount of Life Insurance Fund at beginning of year	4,000,000
Freehold Ground Rents	800,000	Expenses of Management	20,000
Reversions	500,000	Premiums on Business within the United Kingdom	480,000
Outstanding Premiums	50,000	Premiums on Business outside the United Kingdom	6,000
Outstanding Interest, Dividends, and Rent	10,000		

[NOTE.—£10,000 Indian and Colonial Government Securities have been deposited with the Government of the Cape of Good Hope in respect of Life Assurance business.]—(*Incorporated Accountants.*)

REVISION EXERCISE XIX

1. Messrs. Gorgonzola & Co., of London, yesterday bought bills on Cape Town to the amount of £1,842 5s. 6d. Suggest some object or purpose intended by this operation. Describe it, with the use likely to be made of the Bills, and give the form such as you would suppose one of the Bills to have. —(*Royal Society of Arts.*)

2. A & Co., Lagos, consign to B & Co., Liverpool, for sale on joint adventure, native produce purchased at a cost of £22,000. This was paid for as to £5,000 in cash supplied by A & Co., and as to the balance by goods purchased and shipped by B & Co. at a cost of £15,500.

A & Co. disburse £1,831 5s. 6d. for Freight and Insurance, B & Co. incurring expenses of £150, plus an agreed proportion of their establishment charges, £293; and the net profit is then equally divided.

Prepare an account as it would appear in the Ledger of B & Co., showing the final settlement.—(*Incorporated Accountants.*)

3. The following Ledger Accounts appear in the Trial Balance of a Company. State how you would deal with the items in preparing the Annual Accounts, and briefly comment on any points which would need special consideration:—

(*a*) Goodwill Account; (*b*) Repairs Reserve Account; (*c*) Unclaimed Dividends Account; (*d*) Debenture Issue Expenses Account; (*e*) Preliminary Expenses Account; (*f*) Expenditure during the year on the Company's Leasehold Works Account; (*g*) Forfeited Shares Account (amount of cash received on forfeited shares).—(*Royal Society of Arts, Accounting and Banking.*)

4. Describe clearly and illustrate the methods with which you would deal in books of account with each of the following:—

(*a*) N Co. draw a Bill dated 5th January for £1,000 at six months; it is accepted by R, the Company agreeing to pay him cash seven days before the due date. The draft is discounted by D B for £925, and guaranteed by H for a commission of £50. The Bill is not met, but is renewed twice for periods of three months each. On each renewal, D B charges £50 and H £25. The third Bill is met and all liabilities discharged. The books of account are those of the Company.

(*b*) G C agrees to purchase at par from J P 1,000 fully-paid shares of £1 each in a Company, and pays on account three sums of £150 each on 1st December, 4th January, and 3rd February. On the last date, G C states he can pay no more, and requests that the shares be sold. J P sells them to W for 18s. each.

Show the transaction in J P's books and also in G C's.

(*c*) The Directors of a Company have forfeited 500 shares of £1 each, on which 10s. has been paid by B. They re-issue the shares to D, calling up 15s. per share.

Show the transaction in the Company's books.—(*Incorporated Accountants.*)

5. Lead & Hall, Ltd. Balances 31st December:—

	£	s.	d.		£	s.	d.
1,164 Ordinary Shares £7 each, £5 10s. per share called up	6,402	–	–	Prepaid on 32 Ordinary Shares	48	–	–
30 Vendors' Shares £7 each, fully paid	210	–	–	Stock, 1st Jan.	3,644	18	8
				Engine, Boiler, and Shafting, 1st Jan.	170	–	–

	£	s.	d.
Machinery, 1st Jan.	1,000	–	–
Office Furniture, 1st Jan.	30	–	–
Trade Fixtures and Utensils, 1st Jan.	360	–	–
Horse and Van, 1st Jan.	30	–	–
Chas. Johnson, Mortgage *Cr.*	3,500	–	–
Directors' Remuneration	206	12	–
Bank Charges	28	6	–
Freehold Factory	7,350	–	–
Profit and Loss A/c (*Cr.*) 1st Jan.	584	5	6
Reserve Fund A/c	2,350	–	–
Interest on Mortgage, &c.	155	15	2
Bank	21	13	–
Creditors	1,142	5	9
Discount Received	314	6	11
,, Allowed	257	16	11
Bad Debts	12	4	–
Wages	4,126	7	8
Travelling Expenses	255	18	–
Stamps and Parcels Post	114	–	–
Carriage Outwards	319	13	11
Trade Expenses	280	11	6
Fuel	40	17	8
Sales	15,637	6	7
Purchases	8,090	11	11
Rates, Taxes, and Insurance	317	1	2
Additions to Plant during year	386	2	9
Repairs	52	12	2
Horse-keep	57	1	5
Commission, Travellers'	279	2	–
Cottage Rent *Cr.*	25	15	10
Debtors	2,569	7	7
Bills Receivable (Bad, write off)	5	–	–
Cash	52	7	1

The additions to Plant, £386 2s. 9d., consist of Machinery, £187 14s. 3d. Shafting, £117 1s. 2d.; Trade Fixtures, £40 9s. 10d.; New Horse, £40 17s. 6d.

Stock, 31st December, is £3,650 9s. 6d.

Write off Depreciation:—

Freehold, £50; Machinery, 10%; Engine, Boiler, and Shafting, 12½%; Trade Fixtures, 10%; Office Furniture, 5%; Horse and Van, 20%. The additions during the year to be depreciated for six months.

Reserve Discount, 2½% on Creditors; 3¾% on good Debtors; and Reserve for Bad Debts, £100.

Rates and Insurance prepaid, £78.

During the year the Company have manufactured Stationery goods, £123 9s., for their own use in the office, and they have a Stock of £25 on hand at 31st December.

The Prepaid Calls, £48, are entitled to interest 5% per annum (owing for current year).

The Manager is to have a bonus of 5% on the net profit.

The Vendors' Shares take one-fourth of any profit earned in excess of 10% on the Ordinary Capital called up.

Prepare Trading and Profit and Loss Account and Balance Sheet as at 31st December.—(*West Riding of Yorkshire.*)

6. The Utopia Motor Works, Ltd., was registered and commenced business on 1st February, with a Nominal Capital of £200,000, divided into 5,000 Preference Shares of £10 each, and 150,000 Ordinary Shares of £1 each. Of the latter, 32,000 were allotted as fully paid to the vendors. The public subscribed for 4,500 Preference Shares, the whole of which were called up and paid for, and 22,640 Ordinary Shares on which 15s. per share had been called up before 31st January, when the Ledger Balances, in addition to the balances representing the above transactions, were as follows:—

Loans from Sundry Persons	£930
Plant (including additions during the year, £723)	36,803
Repairs Equalization Reserve	2,648
Sales	107,866
Rates, Taxes, Gas, Water, and Insurance (including Rates for one year to 31st March next, £126; and Insurance for one year to 31st March next, £240)	£872
Stock (1st Feb.)	14,685
Bank Loan	3,400
Goodwill	22,000

Sundry Trade Debtors	£8,700
Bills Payable	11,429
Calls in Arrear (Ordinary Shares)	806
Sundry Trade Creditors	18,176
Preliminary Expenses	537
Purchases (including Carriage)	57,833
Wages (Manufacturing)	53,129
Salaries and Commission	1,263
Directors' Fees	2,000
Transfer Fees	17
Bad Debts	1,106
Repairs	2,182
Freehold Land and Buildings	£26,782
Loose Tools	8,001
Bad Debt Reserve as on 1st February	807
Advertising	2,190
Office Expenses	203
Interest on Loans	161
Profit and Loss A/c: Credit balance brought forward, 1st February	37
Cash at Bank and in hand	37

You are required to prepare Trading Account and Profit and Loss Account for the year ended 31st January, and a Balance Sheet as on that date, from the above balances, after making the following adjustments:—

(*a*) Reserve for Interest on Loans accrued to 31st January, £26.

(*b*) Reserve for the proportion of Rates and Insurance paid in advance.

(*c*) The Stock on hand on 31st January was valued at £19,822.

(*d*) The Loose Tools on hand on 31st January were valued at £7,285.

(*e*) The directors decided (1) that two-thirds of the expenditure on advertising was to be carried forward in suspense; (2) that the whole of the expenditure on repairs was to be charged against the Repairs Reserve; (3) that the Reserve for Bad Debts was to be fixed at 4% on the value of the Trade Debtors; (4) that 5% depreciation was to be written off the value of the Plant as on 1st February; and (5) that £361 was to be written off for depreciation of Buildings.—(*Royal Society of Arts.*)

7. The Engine & Motor Co., Ltd., has a nominal Capital of £100,000, divided into 75,000 Ordinary Shares of £1 each and 2,500 6% Cumulative Preference Shares of £10 each.

The books of the Company were balanced on 31st March, on which date a Trial Balance, containing the following balances, was extracted from the books:—

Freehold Premises	£12,675
Plant and Machinery	11,595
Ordinary Share Capital (50,000 shares, fully called)	50,000
Calls in Arrear	2,000
Preference Share Capital (2,500 shares, fully paid)	25,000
Stock-in-Trade, 1st April	14,665
Office Furniture	545
Loose Tools, 1st April	3,125
Patterns	3,155
Patents	1,535
Profit and Loss A/c (Credit Balance, 1st April)	1,545
Goodwill A/c	3,000
Sundry Debtors	31,215
Cash at Bank, Current A/c	985
" " Deposit A/c	10,000
" in hand	45
Sales	107,015
" Returns	975
Purchases	71,245
Purchases Returns	£1,675
Sundry Creditors	12,805
Bills Payable	8,765
Manufacturing Wages	25,595
Repairs and Renewals of Plant	1,245
Coal	2,765
Gas and Water	475
Rates, Taxes, and Insurance	865
Office Salaries	750
Trade Expenses	2,165
Bad Debts written off	615
Reserve for Bad Debts, 1st Apr.	1,165
Directors' Fees	300
Carriage	4,155
Interest on Bank Deposit A/c	45
Audit Fee and Legal Expenses	205
General Expenses	945
Discounts allowed to Debtors	1,235
" received from Crs.	875
Preliminary Expenses	350
Travelling Expenses	465

Before closing the books, the following adjustments are necessary :—

(1) A portion of the premises has been sublet, since 1st January, at £80 per annum, and the Rent due to date has not been paid or passed through the books.

(2) The Insurance unexpired amounts to £30.

(3) Eleven months only of the Office Salaries have been paid. One month's Salaries were owing on 31st March.

(4) Make the Reserve for Bad Debts equal to an amount representing 5% on the Sundry Debtors (excluding Sundry Debtors for rent).

(5) Write off the whole of the Preliminary Expenses.

(6) Write off the following depreciations :—

(*a*) Plant and Machinery, 10% ; (*b*) Office Furniture, 10% ;

(*c*) Patterns, 15% ; (*d*) Patents, 20%.

The Stock-in-Trade on 31st March was valued at £23,995 and the Loose Tools at £2,730.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st March, and a Balance Sheet as on that date.

What dividend, if any, would you recommend the directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the previous year ended 31st March, has not been paid ?—(*London Chamber of Commerce.*

CHAPTER XX

COST ACCOUNTS

THE subject of Cost Accounts has become very important in recent years owing to the complex conditions under which modern commerce is carried on, and many volumes have been written on the subject. The keen competition which prevails renders it necessary that a business man should keep accurate and systematic records by means of which he can ascertain the actual cost of the goods he manufactures, or of the contracts he carries out. This he does by keeping Cost Accounts which may be defined as a system of recording in accounts the materials used and labour employed in the manufacture of a certain commodity or on a particular job. The student should remember that the Cost Accounts are quite distinct from the Financial Accounts, although they are both written up from the same data. It may be further noted that in a proper system, the Financial Books and the Cost Books are kept in such a manner that they agree (at least approximately); the former showing the *total* Works' profit, and the latter the result of *each* of the operations at the Works.

CLASSES OF COST ACCOUNTS

Although the principles of Cost Accounts are applicable to all businesses, the details vary considerably according to the business or industry for which they are required. The following are the classes into which they are usually divided :—

(1) **Terminal or Contract Cost Accounts,** applicable to undertakings where definite contracts are entered into, in which the cost is definite and terminating; *e.g.*, Buildings, Ships, etc.

(2) **Operating or Working Cost Accounts.**—These are used for railways, tramways, gas and water undertakings and the like.

(3) **Single or Output Cost Accounts,** suitable for breweries, collieries, quarries, mines and similar industries, in which there is a natural unit of cost, such as the barrel brewed, the ton raised, etc.

(4) **Multiple Cost Accounts.**—This method is applicable to undertakings in which a number of products are involved bearing little or no apparent relation to each other in cost or selling price; *e.g.*, cycles, hosiery, boots, furniture.

(5) **Process Cost Accounts** are used in businesses in which there are a number of departments and it is desired to know the cost of working each department

OBJECTS OF COST ACCOUNTS

The primary object of Cost Accounts is to enable the manufacturer to ascertain the prime cost and total cost of the articles he manufactures or the contracts he undertakes. Other advantages accrue, which may be enumerated as follows :—

(1) They show not only whether or not a profit has been made on the working of the business as a whole, but whether or not a profit has been earned on each department, or process, or job.

(2) The selling price of goods can be fixed with greater certainty, in order to realise the desired percentage of profit.

(3) Waste of time and stores can be detected and steps taken to prevent a recurrence of the leakages.

(4) They provide valuable data for estimating, or tendering for important contracts ; and for comparison of the results of different manufacturing periods.

In order to arrive at the total cost, the following factors must be taken into account : (1) Labour, (2) Materials, (3) Direct expenses of production and motive power, (4) Indirect expenses, viz., selling, distribution, and administration.

Prime Cost.—The cost of labour (*i.e.*, the amount of productive wages paid) plus the cost of raw materials, with all charges thereon, such as carriage inwards, freight, dock dues, etc., is called the **Prime Cost.**

Works Oncost.—These expenses of production, or Works Oncost, consist of

(1) Rent, rates, taxes, and insurance of factory ;

(2) Motive power, fuel, gas, water, lighting, and heating ;

(3) Patent fees and royalties ;

(4) Non-productive wages of storekeepers, firemen, enginemen, time-keepers, factory clerks, superintendents, and managers ;

(5) Repairs, renewals, and depreciation of plant, machinery tools, land, and buildings ;

Total Cost.—To arrive at the *total cost*, the works oncost and the indirect expenses must be added to the Prime Cost.

Indirect Expenses.—Indirect expenses comprise:—

(1) Rent, rates, taxes, and insurance of office, shops, warehouse, showrooms, etc. ;

(2) Lighting, heating, and water rate of same ;

(3) Travellers' salaries and commissions ;

(4) Salaries of assistants, counting-house staff and manager, directors' fees ;

(5) Carriage outwards, packing materials, printing, stationery, advertising, etc. ;

(6) Bad debts, discounts, etc.;
(7) Depreciation of furniture, fixtures, and fittings;
(8) Interest on Capital, loans and debentures; bank interest, etc

Selling Price.—When the total cost is ascertained, it only remains to add the percentage of profit required, in order to arrive at the selling price, which is thus made up in the following manner :—

Productive wages paid	£	....
Material consumed and charges thereon	£	....
Prime Cost	£	....
Add works oncost	£	....
Add indirect expenses	£	....
Total Cost	£	....
Add percentage of profit	£	....
Selling price		

Note 1.—Some accountants use the term " Flat Cost " to signify the cost of labour, material, and direct expenses of production.

Note 2.—The indirect expenses are often spoken of alternatively as Overhead, Fixed, or Establishment Charges.

Note 3.—It is not infrequent to find Indirect Charges, or Oncost, divided into Works Expenses and Office Expenses.

For the purposes of Cost Accounts it is necessary (1) to analyse the direct wages and materials used so that the proper amount can be allocated to each job or contract, and (2) to apportion the remaining expenses in such a manner that each job and contract bears its fair share.

ANALYSIS OF WAGES

The total sum paid in productive wages must be allocated to the various jobs on which the workmen have been engaged, and in order to accomplish this, each workman is provided with a time sheet or card, on which he enters the time spent on each job.

In some places a time sheet is issued daily; in others, weekly; while a further variation is, to issue a card for each job. The object is the same in all cases, that is, to show the time spent by each workman on a particular job. The following are specimen rulings :—

JOB CARD.—PIECEWORK

Job No._____ Man's No. _____ Name _____

Description of Work_____ Reference_____

Date and Time Commenced _____ Foreman's Initials _____

Date and Time Finished _____ ,, ,, ...

Week Ending.	M.	T.	W.	T.	F.	S.	Total.	Remarks.

TIME SHEET

Workman's Name_____ Date_____

Workman's No. _____ Occupation_____

Job No.	Name of Customer.	Particulars of Work done.	Hours. Time.	Hours. O'time.	Rate.	Amount. £	Amount. s.	Amount. d.

(Signed) _____ Foreman.

These sheets, after being used for the writing up of the Wages Book, are eventually sent to the Cost Office, and the amounts are summarised and posted to the jobs in the Cost Ledger.

ANALYSIS OF MATERIALS

In order to keep a proper record of materials, it is desirable that a Stores Received Book, a Stores Issued Book, and a Stores Ledger should be kept. The rulings of these books are given on the two following pages.

All goods as received are entered in the Stores Received Book, the prices being inserted later from the invoices. No materials should be handed out of the stores without a properly signed requisition, which should state the job number for which the materials are required. The requisition notes are entered in the Stores Issued Book, and are afterwards sent to the Cost Office, where they are summarised and the totals posted to the respective job numbers in the Cost Ledger. If more materials are requisitioned

STORES RECEIVED BOOK

Date.	Order No.	From Whom.	Particulars.	Stores Ledger Folio.	Quantity.				Rate.	Amount.			Remarks.
					No.	cwts.	qrs.	lbs.					

STORES ISSUED BOOK

Date.	Requisition No.	Particulars.	To Whom or for What Purpose.	Stores Ledger Folio.	Quantity.				Rate.	Amount.			Remarks.
					No.	cwts.	qrs.	lbs.					

STORES LEDGER

(Name of Material or Article).....

Dr.			Receipts.						Issues.								*Cr.*
Date.	S.R. Book Folio.	From Whom.	Quantity.				Rate.	Amount.	Date.	S.I. Book Folio.	To Whom.	Quantity.				Rate.	Amount
			No.	cwts.	qrs.	lbs.						No.	cwts.	qrs.	lbs.		

Note 1.—This Ledger would be posted up daily from the Stores Received Book and the Stores Issued Book.

Note 2.—The balance of the two sides should show the quantity of each article in stock at any time, and thus facilitate and check the process of stock taking. Due allowance must, of course, be made for shrinkage and wastage.

than are required, the quantity overdrawn should be returned to the stores and a credit note given.

STORES REQUISITION

No. .....
STORES REQUISITION.
Job No. .....
Particulars :

STORES REQUISITION.

Stores Requisition No. .....19....

Quantity.	Description.	Rate.	Fo.
	JOB NO.		
Signed..... *Man's No.* ..... £			

Material purchased for a particular job can be charged direct to that job in the cost ledger from the invoice, all other purchases will be debited to stores, and charged to their respective jobs through the medium of the requisitions. A suitable form of purchase analysis book is given on next page.

The totals of the various columns of the purchase analysis will be posted in the ordinary way to the debit of the respective nominal accounts, the account recording "Materials purchased direct" agreeing with the amount charged in the cost accounts to customers, or to jobs on hand that will eventually be charged to customers.

All expenses chargeable direct to jobs will also be debited in the cost ledger to the proper accounts, and the total direct expenses debited to a direct expenses account in the financial books from the Cash Book, Petty Cash Book, etc.

ONCOST

"Oncost" is a technical term used in Cost Accounts to denote all expenditure which cannot be directly charged to the articles manufactured or work done.

So far, only the allocation of wages and materials has been dealt with, but it is clear that *all* the expenses of the business not directly charged to the cost accounts must in some way or other be apportioned, in an equitable manner, to the various orders executed. The method of distributing this expenditure has given rise to much controversy, and many systems are in vogue, among which the following may be mentioned :—

(1) **Fixing One Percentage to Cover all Direct and Indirect Expenditure.**—This is inaccurate and unscientific, for the reason that by it

PURCHASE ANALYSIS BOOK

Date.	Name	No. of Invoice.	Ledger Folio.	Amount.	Goods and Materials purchased direct.			Goods and Materials purchased for Stock.		Other analytical columns.	Other analytical columns.
					No. of job.	Cost Led. folio.	Amount.	Stores Led. folio.	Amount.		

the work requiring the use of expensive machinery would bear precisely the same proportion of expense as work performed with a cheap tool.

(2) **The "Machine-rate" Method.**—This signifies a charge of so much per hour for each tool or machine used, in addition to the cost of wages and material consumed.

(3) **The "Hourly-burden" Plan.**—By this method the total expenses are ascertained and divided over the number of hours worked. The weakness of this system is that no discrimination is made between expensive and cheap machinery, and therefore it is accurate only when the class of machinery used is uniform.

(4) **Percentage on Wages.**—Fairly accurate results may be made by this method if the work and the conditions do not vary much, but it does not discriminate between expensive and cheap machinery, nor is it equitable where wages form a small proportion of the total cost.

(5) **Varying Rates for Different Items of Expenditure.**—By this method, items such as Rent, Rates, Taxes, Lighting, Heating, etc., are apportioned according to the floor space occupied by each shop. Gas, Water, Electricity can be measured by means of separate meters for each shop, and Power may be charged at a rate per horse-power of each machine.

(6) **Charging Factory Oncost and General Oncost separately.**—When this method is used, the amounts of the manufacturing expenses (factory oncost) and the administration and selling expenses (general oncost) are ascertained and dealt with separately. With regard to the Factory Oncost the question to be decided is, On what basis shall the calculation be made? Shall it be on the cost of labour only, materials only, or labour and materials? Most accountants are of opinion that the calculation should be based on the cost of *labour* only, as this is a more constant factor than is material. In the first instance the charges will have to be an estimate based on the experience of similar businesses, but at the end of the first year's trading, the Profit and Loss Account will supply valuable information. Suppose, for instance, that the Trading and Profit and Loss Account shows Material Consumed, £20,000; Productive Wages, £9,000; Factory Expenses, £3,600; Administration Expenses, £4,890. From these figures it is found that the Works Cost is:—

Materials consumed	£20,000
Productive Wages	9,000
Prime Cost	29,000
Factory Oncost	3,600
Works Cost	£32,600

(Form 45)

COST LEDGER

Job No. _____

Period ending.	Debits.					Credits.		Prime Cost.	Establishment Charges.	Total Cost.
	Stores.	Special Materials.	Wages.	Direct Expenses.	Total.	Stores Returned.	Total.			

so that the Factory Oncost is 40 per cent. of the Productive Wages. General Oncost, which is calculated on Works Cost, is 15 per cent., and future calculations would be made on this basis, *e.g.*:—

Materials consumed	£ ....
Productive Wages	£ ....
Prime Cost	£ ....
Add Factory Oncost 40% on Wages . .	£ ....
Factory Cost	£ ....
Add General Oncost 15% on Factory Cost	£ ....
Total Cost	£ ....

When a job is completed and all the time sheets and requisition notes have been entered in the Cost Ledger (a ruling of which is given), the Oncost is added, also the percentage for profit, and the entry is then passed through the Sales Journal, and debited to the Customers account in the Sales Ledger.

Percentages on Returns.—It may be pointed out that in adding percentages for profits the percentages should be based on returns. For instance, on an article costing £10 and sold at £13 6s. 8d., there is a profit *on cost* of 33⅓ per cent., but *on the return* it is only 25 per cent. The following table may be of service for calculating profits.

Add	*to cost*	50	per cent.	to give	33⅓	per cent.	*on return*
,,	,,	33⅓	,,	,,	25	,,	,,
,,	,,	25	,,	,,	20	,,	,,
,,	,,	20	,,	,,	16⅔	,,	,,
,,	,,	12½	,,	,,	11⅑	,,	,,
,,	,,	10	,,	,,	9 1/11	,,	,,

Units of Output or Earning.—The following units of output or earning are generally in use:—

Breweries—per barrel of beer brewed.

Brickworks—per 1,000 bricks made.

Collieries—per saleable ton of coal raised.

Mines—per ton of ore raised.

Hotels—per visitor per day.

Gasworks—per ton of coal carbonised, and per 1,000 cubic feet of gas sold.

Waterworks—per 1,000 gallons of water consumed.

Electric Light Works—per ton of coal used, and per 100 Board of Trade units of electricity sold.

Railways—per ton carried, and per train-mile run.

Trading Businesses with a miscellaneous output—per £100 of sales.

COST OF PRODUCTION OF A STANDARD PRODUCT (say) BESSEMER STEEL.

	January, 19— Output: 1,000 Tons.						
	Expenditure.			Cost per Ton.			Percentage on Selling Price.
	£	s.	d.	£	s.	d.	
Materials—							
Purchased direct (particulars from Analysis Purchase Book)	525	–	–		10	6	10·50
Requisitions of Stores (particulars from Stores Requisition Book) ..	950	–	–		19	–	19·00
Labour—							
Operation No. 1	250	–	–		5	–	5·00
(Particulars from Wages Book analysed according to the various operations of labour) „ „ 2	304	3	4		6	1	6·08
„ „ 3	325	–	–		6	6	6·50
„ „ 4	287	10	–		5	9	5·75
„ „ 5	337	10	–		6	9	6·75
„ „ 6	304	3	4		6	1	6·08
„ „ 7	216	13	4		4	4	4·34
Prime Cost . . .	3,500	–	–	3	10	–	70·00
Direct Expenses—							
(1) Rent, Rates, Taxes, and Insurance of Works	25	–	–			6	0·50
(2) Motive Power, Fuel, Gas, Water, Lighting	275	–	–		5	6	5·50
(3) Royalty	50	–	–		1	–	1·00
(4) Non-Productive Wages & Salaries	150	–	–		3	–	3·00
(5) Repairs, Depreciation, etc., of Plant and Machinery . .	100	–	–		2	–	2·00
(6) Interest on Capital Outlay on Plant, etc.	25	–	–			6	0·50
. . .	4,125	–	–	4	2	6	82·50
Indirect Expenses—							
(1) Rent, Rates, Insurance, etc., of Offices, Warehouses . . .	12	10	–			3	0·25
(2) Lighting, Heating, Water . .	8	6	8			2	0·16
(3) Salaries of Office Staff, Manager .	250	–	–		5	–	5·00
(4) Bad Debts Discounts . . .	50	–	–		1	–	1·00
(5) Depreciation of Fixtures, etc. .	4	3	4			1	·09
(6) Interest on Capital, Loans . .	50	–	–	–	1	–	1·00
Total Cost . . .	£4,500	–	–	4	10	–	90·00
Percentage of Profit, 11⅑% (which gives a 10% profit on the Selling Price)					10	–	10·00
Selling Price per Ton .				£5	–	–	100·00

The Wage Book should be so arranged that the workmen engaged on similar operations of labour are grouped together, so that the total amount spent on each operation of labour can be extended in a separate column, as this information is necessary in preparing the Cost Accounts.

COLLIERY COST SHEET.

Item of Expenditure.	Jan., 19— 12,000 Tons.			Feb., 19— 11,500 Tons.		
	Cost per ton.	Amount.		Cost per ton.	Amount.	
	s. d.			s. d.		
WAGES—						
Colliers	2 1.61	1,280 5 6		2 2.03	1,247 5	2
Underground	11.20	560 2 5		11.39	545 16	4
Surface	5.98	299 4 7		6.07	290 17	8
WORKING EXPENSES—						
Timber	2.39	119 10 8		2.63	125 14	7
Stores	1.07	53 6 5		1.19	57 2	8
Royalties	6.00	300 — —		6.00	287 10	—
Horse and Stable Expenses	1.51	75 8 9		1.47	70 9	10
Repairs and Renewals	1.67	83 6 3		1.67	79 15	8
Depreciation	2.91	145 14 7		2.90	139 2	9
ESTABLISHMENT CHARGES—						
Rent, Rates, Taxes, etc.	1.69	84 10 6		1.74	83 9	5
Salaries and Management	3.50	175 — —		3.65	175 —	—
Bad Debts and Discounts	.88	44 1 5		.86	41 5	6
Sundry Expenses	.70	35 2 10		.68	32 9	7
Total Cost	5 5.11	3,255 13 11		5 6.28	3,175 19	2

EXERCISE XX

1. From the following particulars make out monthly Cost Sheets of a Coke and Bye-Product Company:—

	April.	May.	June.
Coal used	6,900 tons	7,200 tons	7,300 tons
Coke made	4,700 ,,	4,725 ,,	4,775 ,,
Tar made	325 ,,	340 ,,	325 ,,
Sulphate of Ammonia made	90 ,,	100 ,,	95 ,,
Sulphuric acid used	75 ,,	95 ,,	90 ,,
Benzole made	12,300 galls.	13,900 galls.	14,000 galls.
Creosote Oil used	7 tons	8 tons	8 tons
Wages	£550	£560	£565
Stores, etc.	55	75	75

The prices of the above materials and products were:—Coal, 8s. per ton; Coke, 14s. 6d. per ton; Tar, 13s. 3d. per ton; Sulphate, £10 15s. per ton; Sulphuric Acid, £2 5s. per ton; Benzole, 3¼d. per gallon; Creosote Oil, 3½d. per gallon (1 ton = 220 gallons).

Show the percentage (to two places of decimals) of Coke made, of Tar made, and of Sulphate of Ammonia made to the weight of coal used.—(*Chartered Accountants.*)

2. Classify the various distinct methods of costing. Explain the peculiar characteristics of each, and state to what particular class of undertakings each is applicable.—(*Chartered Accountants.*)

3. Smithson & Company, in addition to a general engineering and repairing business, are manufacturers of pumps of four standard sizes, which they make and sell in large quantities. They desire to inaugurate a system which will show them the cost of production of each standard size of pump. Set out briefly your suggestions as to how this could be accomplished.—(*Chartered Accountants.*)

4. Draw up a form of weekly or monthly Cost Sheet adapted to one only of the following industries, and give specimen entries illustrating its working: (*a*) Colliery, (*b*) Cotton-spinning Mill, (*c*) Iron Foundry, (*d*) Brewery. —(*Chartered Accountants.*)

5. State briefly the principles governing Cost Accounts, and give a form of Cost Sheet suitable for a manufacturing business, entering not less than six items of cost relating thereto.—(*Chartered Accountants.*)

6. State the unit or units of output or earning generally in use for preparation of Cost Accounts of the following:—(1) Breweries, (2) Brickworks, (3) Collieries, (4) Electric Light Works, (5) Gas Works, (6) Iron and Steel Manufacturers, (7) Tramways, (8) Water Works.—(*Chartered Accountants.*)

7. When auditing the accounts of a large factory where wages are paid by piece-work, you find on reference to the Company's statistical results the following:—

A. Dept.	Year (1).	% on Output.	Year (2).	% on Output.
Material . . .	10,500	10.50	11,500	11.50
Wages . . .	5,250	5.25	7,250	7.25
Packing . .	1,050	1.05	1,000	1.00
Supervision . .	525	.52	500	.50

What are your conclusions?—(*Incorporated Accountants.*)

8. Prepare a chart showing the output of electricity and coal consumption of an Electric Lighting Company.—(*Incorporated Accountants.*)

9. What are the principal reasons for Cost Accounts? What tests would you apply to Cost Accounts so as to ensure their accuracy as far as possible? —(*Incorporated Accountants.*)

10. A Soap Manufacturing Company keep their Cost Accounts on the card index system. What are the advantages of the system for this purpose? Give an illustration of a card and state what precautions are necessary where the raw material used is subject to violent fluctuations.—(*Incorporated Accountants.*)

11. Explain the information and advantages to be obtained by a careful tabulation of comparative statistics and percentages in relation to:—(*a*) Gross Profit, (*b*) Wages, (*c*) Stock, (*d*) Material, (*e*) Costs of Distribution, (*f*) The detection of fraud in accounts.—(*Incorporated Accountants.*)

12. A firm of Constructional Engineers carry on a business which is almost entirely done under contracts. Most of the material required is purchased specially for these contracts, but quantities of general materials are also

purchased for Stock. They desire to be kept advised of the progress of the cost and the ultimate profit or loss on each contract as completed. State the general outlines of a system of Cost Accounts you would recommend for this purpose.—(*Chartered Accountants.*)

13. State the theory of Overhead Charges or Oncost, saying how they are determined, and how applied.—(*Chartered Accountants.*)

14. Describe a system of Cost Accounts suitable for a Builder and Contractor detailing the nature and the use of the books you would recommend, and showing how the Cost Accounts may be co-ordinated with the Commercial Accounts.—(*Chartered Accountants.*)

15. In the Nominal Ledger of a firm of contractors you find the following account :—

COST BOOK ACCOUNT.

Dr.					*Cr.*
		£			£
Jan. 1	To Balance brought down	3,000	Dec. 31	By Contracts and Charges	45,000
Dec. 31	To Goods and Materials from Stock	23,000		By Materials returned to stock	2,500
	To Wages	16,000		By Balance carried down	3,200
	„ Sundry Cash payments	200			
	„ Transfer to P. & L. Account.	8,500			
		£50,700			£50,700
Jan. 1	To Balance brought down	£3,200			

Explain fully the meaning and use of this account.—(*Chartered Accountants.*)

16. The Northern Foundry Co., Ltd., are manufacturers of steel castings. The Company has instituted a system of costing ; and you are requested to advise as to the basis on which standing charges and establishment expenses should be charged. The manufactures of the Company vary greatly, some of the castings being of considerable size and weight, and others very small, but requiring intricate workmanship.

The points you have to deal with are :—

(1) Foremen's wages, and wages of labourers and others not directly charged,

(2) Rent and rates,

(3) Travellers' salaries and expenses, and expenses of the forwarding department,

(4) General office expenses,

(5) Salaries of manager and managing director.

What would you advise ?—(*Chartered Accountants.*)

17. What do you understand by the term "Oncost"? Upon what basis or bases do you consider it should be calculated? Give your reasons. —(*Chartered Accountants.*)

18. What advantages and disadvantages do you see in presenting along with a Revenue Account a tabular system of percentages? Draw up an imaginary account of this kind for 3 years in connection with any business with which you are familiar, and make a Report stating the conclusions you have come to from the figures. Point out fallacies that may arise from a study of percentages alone.—(*Incorporated Accountants.*)

19. From the following Account, work out a percentage statement, calculated on the basis of (*a*) the turnover, (*b*) the cost price of goods sold, (*c*) the gross profits. Compare the three methods and advise as to which is best.

Jan. 1.	To Stock at cost .	£3,300	June 30.	By Sales	£25,280
June 30.	„ Purchases . .	10,700	„	„ Stock at cost .	4,600
„	„ Productive Wages . .	8,200			
„	„ Non-Productive Wages . .	1,320			
„	„ Salaries . . .	740			
„	„ Rent, Rates, and Taxes . . .	1,260			
„	„ Carriage outwards . . .	480			
„	„ Bad Debts . .	120			
„	„ Travelling and Commission .	840			
„	„ Postages and Stationery .	220			
„	„ Other Expenses.	600			
„	„ Profit	2,100			
		£29,880			£29,880

—(*Incorporated Accountants.*)

REVISION EXERCISE XX

1. "The Lord Mayor yesterday remitted to Madras by telegraph £2,000 as a first instalment on account of the Indian Famine Fund." Explain by what expedients the transfer is effected, and give the entries in London and Madras books respectively.—(*Royal Society of Arts.*)

2. Charles Richardson & Co., of London, send upon consignment to William Robinson & Co., of Alexandria, on 1st February, for sale on their account, 74 cases of Bradford goods invoiced *pro formâ* at £100 per case. A commission of 2½ per cent. is payable on sales. Charles Richardson & Co. pay Freight £35, Insurance £12, and draw on William Robinson & Co. a two months' bill at sight for £1,000. William Robinson & Co. pay landing charges £7, Insurance and Freight £20, and accept the bill on 21st February and obtain delivery of goods: they sell 30 cases at £120 each, 24 cases at £125 each, and 20 cases at £130 each. Make out an Account Sales and enter up the Consignment Account in Charles Richardson & Co.'s and in William Robinson & Co.'s books. —(*Incorporated Accountants.*)

3. A, B, C, are partners in a business, dividing profits equally. Their balance sheet at 31st December is as follows:—

Sundry Creditors	£3,800	Sundry Debtors	£9,700
Bills Payable	900	Stock	2,400
Capital Accounts—		Furniture	380
A	6,000	Cash at Bank	620
B	3,000	C, Drawing A/c	3,000
C	1,000		
Drawing Accounts—			
A	700		
B	700		
	£16,100		£16,100

C is insolvent and unable to contribute anything; the partnership is consequently dissolved, and the Sundry Debtors' Stock and Furniture realise £10,380. Draw up a final Balance Sheet showing the position of each partner's Capital Account. There is no agreement between the parties.—(*Incorporated Accountants.*)

4. A Limited Company is formed to buy a property from B for £50,000—£25,000 in cash and £25,000 in shares. The Capital is £75,000 in 75,000 shares of £1 each. 50,000 shares are issued, 5s. payable on application, 5s. on allotment, 5s. on first call, and 5s. on final call.

The purchase money, £25,000, is paid, and the consideration shares are allotted to B.

The preliminary expenses, £2,200, are paid by the Company. Shareholders holding 820 shares fail to pay the final call, and the shares are forfeited under the Articles of Association.

State the Cash Book, Journal and Ledger entries necessary to record the facts.—(*Incorporated Accountants.*)

5. The Gasoline Motor Co., Ltd., is a Company having an authorised capital of £100,000, divided into 100,000 shares of £1 each. 50,000 shares have been issued and 10s. per share called up thereon. The Authorised Mortgage Debentures amount to £100,000 and £15,000 have been issued.

The following are the Ledger Balances as on 31st December.

Freehold Land, and Buildings	£5,000	Wages, Manufacturing	£11,800
Machinery and Plant	8,800	Purchases Returns	1,000
Patterns	3,300	Sales Returns	1,500
Patents	1,000	Cost of Erecting and Fitting of Cars	2,400
Share Capital	25,250	Calls in Arrear	500
Stock-in-Trade (1st Jan.)	9,000	Sales	43,500
Office Furniture and Fittings	400	Repairs, Renewals, and Maintenance	800
1st Mortgage 6% Debentures	15,000	Coal, Coke, Gas, and Water	450
Sundry Creditors	4,250	Printing, Stationery, and Advertising	250
London, County & Westminster Bank Loan	1,500	Calls paid in Advance	250
Loose Tools, 1st Jan.	2,500	Rates, Taxes, and Insurance	260
Sundry Debtors	19,950	Reserve Fund	2,500
Cash at Bankers	920	Reserve for Bad Debts	850
Purchases	20,000	Bad Debts written off	60

Travelling Expenses and Commission			£1,400		
General Expenses			300		
Directors' Fees			500		
Interest on Debentures			900		
Profit on Investments Realised			910		
Bank Charges and Interest			70		
Legal and Professional Charges					£150
P. & L. Account Cr. Balance 1st Jan.					650
Royalties					200
Investments on Account of Reserve Fund					2,000
Interim Dividend Paid					1,250

You are required to prepare:—(*a*) Trial Balance, (*b*) Trading Account, (*c*) Profit and Loss Account, (*d*) Balance Sheet.

Write off for Depreciation:—Land and Buildings, 5%; Machinery and Plant, 5%; Patterns and Patents, 10%; Office Furniture, 5%.

Write up Reserve for Bad Debts to £1,000, and raise a Suspense Account of £750 for a claim against the Company not admitted.

On 31st December, 19—, the stock was valued at £9,500, and the Loose Tools at £2,300.—(*Civil Service: Second Division Clerks.*)

6. THE DRAGON WORKS, LTD., 31st March.

Dragon Works Freehold	£6,000	–	–	Work in progress, 1st April	£3,520	16	10
Gas and Heating Apparatus	420	–	–	Bank	1,240	4	2
Plant, 1st April	3,000	–	–	Loan Interest to 30th Sept. last	60	–	–
Do. bought this year	600	–	–	Carriage	729	9	1
Electric Power Installation	180	–	–	Rates and Taxes	186	4	4
Creditors	962	16	3	Ord. Shares, 20,000 £1 Shares, 15s. paid up	15,000	–	–
Loose Tools	1,240	–	–	Pref. Dividend to 30th Sept. last	300	–	–
Belting	160	–	–	Debenture Interest	180	–	–
Patterns and Drawings	1,160	–	–	Wages	4,258	4	9
Goodwill	4,000	–	–	Purchases	6,724	8	3
Stock, 1st April	4,809	15	3	Discount Received	132	5	–
Cash	26	10	–	Salaries	972	10	–
Patents	500	–	–	Reserve Fund A/c	1,000	–	–
Loan at 6% *Cr.*	2,000	–	–	Advertising	418	5	8
Office Furniture	80	–	–	Trade Expenses	702	3	5
Debtors	9,447	13	4	Repairs	637	6	2
Pref. Shares, 10,000 £1 6% Cumulative	10,000	–	–	Travelling Expenses	426	10	–
Volt and Ampere Co., Ltd., 100 £5 Ord. Shares, cost	600	–	–	Debentures 4½%	8,000	–	–
Preliminary Expenses	450	–	–	Sales	16,052	7	1
Profit and Loss A/c, 1st April *Cr.*	100	–	–	Discount Allowed	342	7	1
				Volt and Ampere Co., Ltd., Shares, Dividend A/c	125	–	–

Stock, 31st March, £6,404 5s. 9d.; and Work in Progress, £3,571 13s.

Owing, 31st March:—Carriage Accounts for March, £75; Rates, £30; Expenses Account, £20; Half-year's Loan Interest, less tax at 1s.; Half-year's Debenture Interest, less tax at 1s.

The Company having paid Income Tax up to 5th April next, credit the Rates and Taxes Account with tax at 1s. in £ on Debenture and Loan Interest owing and on Half-year's Pref. Dividend to 31st March next.

Provide Discount Reserve on Debtors, £300. Write off Depreciation at the following rates per cent. per annum:—Gas and Water Apparatus, 5; Electric Installation, 25; Belting, 20; Patterns, 15; Patents, 10; Plant, 7½ (but on £600 for ½ year only).

The Loose Tools are valued at 31st March at £1,180. Write off one-third of Preliminary Expenses.

The Shares in the Volt and Ampere Co., Ltd., are now worth a premium of 40%, and the Profit and Loss Account is to be credited accordingly.

Prepare Profit and Loss Account and Balance Sheet as at 31st March. —(*West Riding of Yorkshire.*)

7. The Albury Mining Co., Ltd., was registered on 1st January, and commenced operations at once as an Exploring and Mining Company. The nominal Capital consisted of 50,000 Ordinary Shares of £5 each. Of this Capital 20,000 shares were issued and taken up by the public, 30s. per share being called up. During the process of sinking a shaft, a good deposit of clay was found, suitable for tile-making, and the Company decided to manufacture and sell tiles, as a separate trading department. During the month of December, the Company's engineer reported that a paying vein of tin had been reached; and the Directors decided that the cost to date of opening up this vein should be capitalised and written off over future years when the property was in full working order.

On 31st December the balances of the Ledger accounts of the Company were as follows:—

Freehold Land at cost	£7,000	Rates, Taxes, Office, and Sundry Expenses, and Carriage	£584
Buildings at cost	563	Carriage (Tile Dept.)	215
Preliminary Expenses	410	Legal Expenses (*re* Claim for injuries in Mine Accident)	220
Stock of Stores and Coal on 31st December	988	Sales of Tiles	2,599
Coal consumed	931	Sundry Creditors	3,407
Wages	3,843	Tramway Track and Wagons at cost	1,100
Salaries	308	Travellers' Commission (Tile Dept.)	63
Stores used	2,745	Bills Payable	627
Stores used (Tile Dept.)	56	Cash at Bank	2,477
Wages (Tile Dept.)	2,733		
Machinery and Plant at cost	12,038		
Capital	30,000		
Sundry Debtors	359		

You are required to prepare (*a*) an account showing the amount which you consider should be capitalised as representing the cost of opening up the tin vein, (*b*) an account showing the trading results of the Tile Department for the year ended 31st December, and (*c*) the Balance Sheet as on 31st December.

The Directors decided that a charge of £343 should be made against the Tile Department, as representing power, coal, etc., used; and a charge of £104, as representing a share of general trade expenses.

The stock of tiles on hand as on 31st December was valued at £718 —(*Royal Society of Arts.*)

CHAPTER XXI

INCOME TAX

Definition.—Income Tax is a burden of a certain number of pence on each pound sterling of income from whatever source.

Persons Liable to Income Tax.—All persons resident in Great Britain and Northern Ireland, whether British subjects or not, are liable to assessment; and also all persons not resident within Great Britain and Northern Ireland (whether British subjects or not) in so far as they derive income from property, trade, or employment in Great Britain and Northern Ireland. From 1st April, 1923, the Irish Free State has levied its own taxes and, therefore, persons receiving income from both countries will be subject to both British and Irish Free State Income Tax, subject to the Dominion Tax relief for double taxation.

Taxation of Income at the Source.—So far as possible, income is taxed *at its source*, the person who pays the income at the fountain head being liable to the Income Tax Authorities for tax thereon or for any tax that should be deducted therefrom.

Schedules of Income Tax.—The Income Tax Act, 1918, enumerates the five schedules under which income tax is levied, They are as follows:—

Schedule A, income from the ownership of land, buildings, etc.
Schedule B, income from the occupation or use of land.
Schedule C, income from Government and public stocks.
Schedule D, income from trade, profession or vocation.
Schedule E, income from offices or employment.

Income Tax Commissioners.—Income Tax Commissioners are of two kinds: General or District Commissioners, and Special Commissioners.

District Commissioners are influential persons with certain property qualifications, appointed, without remuneration, for the different districts. They elect the Additional Commissioners, and also hear appeals against assessments made by the latter. **Additional Commissioners** are persons selected by the General or District Commissioners from among themselves. They fix the amount of the assessment after consultation with the Assessor and the Inspector of Taxes. **Special Commissioners** are Government Officials with offices in Kingsway, W.C.2. Their duty is to assess all taxpayers who wish to be assessed by them; to hear appeals, in London and throughout the country, against their own assessments and also against the assessments made by the Additional Commissioners. They can be called upon by the taxpayer to state a case, on a point of fact, for decision by the Board of Inland Revenue. On questions of *fact*, the decision of the District

Commissioners is final: there is no appeal, but, on questions of *law*, an appeal can be made to the High Court and thence to the Court of Appeal, and to the House of Lords, against the decision of either the Special or the District Commissioners. The Special Commissioners assess Railway Companies under Schedule A, Railway Officials under Schedule E, Interest and Dividends from public stocks under Schedule C, and they also make super-tax assessments. The Commissioners of Inland Revenue are *ex-officio* Special Commissioners for Schedule D tax.

Official Year of Assessment.—The year of assessment is the Government's financial year, which runs from 6th April of one year to 5th April of the next year.

Income Tax Officials.—Assessors are paid officials appointed by the District Commissioners. Their duty is to issue the well-known yellow Form Nos. 1 and 11, to persons liable under Schedule D. The form must be completed and returned within twenty-one days. Every person, whether liable to tax or not, must make a return, when called upon to do so (Income Tax Act, 1918, sec. 100). If no return is made, the Assessor estimates the amount of income. The Assessors also make assessments under Schedules A, B, and E. A list of the names and amounts is in each case handed to the Commissioners. The **Inspector of Taxes** is a paid official of the Board of Inland Revenue. His duty is to supervise the returns of taxpayers and the assessments made by the Assessors before they are handed to the Commissioners. He is also empowered to fill in omissions, amend assessments, and make surcharges. If no return is made, he issues a second form, No. 1A or 11A, demanding that the required information be furnished within seven days. The amount of the assessment can generally be satisfactorily arranged with the Inspector if proper accounts are furnished. Notice of appeal against an assessment must be forwarded to the Inspector of Taxes, who appears before the District or Special Commissioners in support of the assessment.

Rates of Income Tax.—The rates of Income Tax have undergone many changes in recent years, and particularly since the outbreak of war in 1914. Until the year 1920-21 the rates were graduated according to the amount of the total income of the taxpayer. By the Finance Act, 1920, however, the standard rate was made 6s. in the £, with the proviso that the first £225 of taxable income should be charged at half the standard rate, viz., 3s. in the £.

The rates for 1922-23 were 5s. and 2s. 6d.; for 1923-24 and 1924-25, 4s. 6d. and 2s. 3d.; and for 1925-26-27, 4s. and 2s.

Irish Free State.—The position is that the Free State Government has adopted the British Income Tax Law (with a few modifications) in force on 5th April, 1923; but since that date it has passed its own Finance Acts.

SCHEDULE A

Scope of Tax.—The tax under Schedule A is levied on income derived from the *ownership* of house property, land, buildings, etc. This tax is commonly spoken of as landlord's tax or property tax.

Annual Value.—The annual value of property is its annual value to be let by the year, that is the amount it would bring in if the property were so let. If the owner of premises occupies them himself, the annual value is deemed to be his income therefrom, although he does not actually receive anything in specie.

How House Property is Assessed.—Assessments of house property are made every five years. Forms are issued quinquennially to all occupiers of premises, who are required to fill in particulars respecting the amount of rent paid, and also who pays the rates, whether landlord or tenant. A reduction in the assessment may be claimed should the value of the property afterwards decline. An appeal can also be made to have the assessment cancelled or reduced when a house has not been occupied for the year of assessment or for any part of it. A statutory allowance off the gross assessment is made for repairs, the occupier being expected to bear the rates and taxes. Where the tenant bears the rates and taxes, and also the cost of repairs, the statutory allowance will not be made; the assessment will be the amount of rent payable. Where the tenant bears the rates and taxes, but not the repairs, the assessment will be the amount of rent payable *less* the statutory allowance. Where the owner bears both rates and taxes and repairs, the assessment is based on the amount of rent receivable, *less* the statutory allowance and also rates and taxes.

The following are now the allowances—

Where the gross assessment does not exceed £40 . .	one-fourth.
,, ,, ,, ,, £100 . .	one-fifth.
,, ,, exceeds £100 . .	£20

Plus one-sixth of the amount by which the assessment exceeds £100.

but where the value exceeds £40 the allowance may not be less than £10 (one-fourth of £40). If such provision were not made premises valued at £45 would be subject to a reduction of £9, whilst others valued at £40 would be reduced by £10. Where the cost of repairs and maintenance, upon the average of the preceding five years, exceeds the stated allowances, a claim may be made for repayment of tax suffered on the excess cost of repairs.

How Farm Property is Assessed.—The assessments of farm or agricultural property are made in a similar manner, *less* the amount of tithe payable. With this kind of property, however, repairs are not such a heavy item of expense, and, consequently, the

statutory allowance for repairs is only one-eighth. The following is an example:—

Yearly Rent	£480
Less Allowance for Repairs, ⅛th	60
	420
Less Tithe (say)	40
	£380

Collection of Tax under Schedule A.—The tax under Schedule A is usually collected from the tenant, and the tenant is empowered by law to recoup himself by deducting the amount of the tax so paid from his next payment of rent. The landlord is bound by law, on being shown the official receipt, to allow such a deduction. Where, however, the net assessment is higher than the rent, the tenant can only recover tax on the actual rent he pays. Thus if the net assessment is £70 and the rent £60, the tenant will pay tax on £70, but can only deduct from the landlord tax on £60. He must bear the tax on £10 himself, as he has a beneficial interest in the assessment. In cases where the annual rent of property is less than £10, and also where land and buildings are let for a less period than one year, the tax under Schedule A is levied direct on the landlord.

Nature of Income Taxed under Schedule A.—Income assessable under Schedule A is treated as *investment* income, but in cases where a house, rent free, forms part of a person's salary or emoluments, the net annual value is, *if assessable*, regarded as *earned* income.

SCHEDULE B

Scope of Tax.—The tax under Schedule B is levied on the profits arising from the *use* of agricultural lands, including farms, nursery and market gardens, etc.

Mode of Assessment.—Assessments under Schedule B are made quinquennially. They may be reduced if the rent is lowered, but they are not liable to any increase if the rent is raised. The assessment may also be reduced in cases where floods or storms have damaged growing crops or rendered land unfit for cultivation, provided the landlord has made an abatement in the rent. Until the passing of the Finance (No. 2) Act, 1915, the Schedule B assessment was based on one-third of the rent or annual value, but under the Act mentioned, the basis was increased to the full rent or annual value, from 1918 to twice the rental value, but from 1922–23 the rental value is the basis. Under the Income Tax Act, however, if the farmer can furnish satisfactory proof that his income from working the farm is lower than the statutory income, he can claim return of tax on the difference between the two amounts.

Option of Assessment under Schedule D.—A farmer has the option of being assessed under Schedule D on a three years' average. He must, however, give notice to the inspector within two months of the commencement of the yearly assessment (*i.e.*, before the 6th June).

Nature of Income taxed under Schedule B.—Income taxable under Schedule B is regarded as *earned* income.

SCHEDULE C

Scope of Tax.—Tax is levied under Schedule C on all profit from interest, dividends, annuities, etc., payable out of public funds. This comprises the funds of Great Britain or Northern Ireland, the Colonies, and also any foreign stock the dividend or interest on which is paid by an agent or bank in Great Britain or Northern Ireland. Where the interest and dividends on foreign public stocks are not paid by an agent resident in Great Britain or Northern Ireland, such interest and dividends are taxed under Schedule D.

Mode of Assessment.—Under Schedule C, tax is charged on the actual income of the year of assessment.

Collection of Tax.—In most cases tax on dividends and interest is collected at the source. The bank or agent making the payment is authorised by law to deduct and retain the tax. The tax has afterwards to be remitted in one lump sum to the Inland Revenue Authorities. There are, however, exceptions to this rule. Where the half-year dividend payable to an individual out of the Public Funds does not exceed 50s., such dividend is paid in full, and tax is paid thereon by direct assessment on the individual. Interest on certain other registered or inscribed securities issued in connection with the war is paid without tax being deducted.

Nature of Income Taxed under Schedule C.—Income taxable under Schedule C is regarded as *investment* income.

SCHEDULE E

Scope of Tax.—Under Schedule E, tax is levied on all income from public offices or employment, from annuities (except those taxed under Schedule C), pensions, and stipends payable out of the public revenue, or by public or limited companies, or private firms.

Mode of Assessment.—Assessments are made, under Schedule E, on officials of the Government, including the Civil Service, officials of the law courts, and of any public body, society or corporation, and on officers of the Army and Navy. Employees of limited companies and private firms are also assessed under this schedule. The assessment is made on the actual income of the year of assessment, and a supplementary assessment is made if any increase of salary is received during the year.

Until the year 1922–23 employees of a private firm were assessed

under Schedule D, upon the average salary of the three preceding years. (Clerks, typists, etc., of a limited company were also granted the average, by way of concession.) The average system is now abolished and all employees are assessed under Schedule E.

How the Tax is Collected.—The tax under this schedule is generally paid by the individual himself. In Government offices, however, tax is deducted from the salaries paid to officials. Railway companies are also empowered to deduct tax from the salaries paid to their employees, except weekly wage-earners.

Return of Employees and Salaries.—Employers, corporations, and limited companies are required by section 105 of the Income Tax Act, 1918, to make a return of the names and addresses of their employees, and of the salaries, fees, commission, bonus, etc., paid to them. The names of employees whose incomes do not exceed the exemption limit may, however, be omitted.

Nature of Income taxed under Schedule E.—Income taxed under Schedule E is regarded as *earned* income.

SCHEDULE D

Scope of Tax.—Income taxable under Schedule D comprises all income arising from the following:—

(1) Trade, Manufacture, Adventure, or concern in the nature of Trade.

(2) Professions or Vocations.

(3) Profits of an uncertain annual value not charged under Schedule A (*i.e.*, discounts and interest on money not taxed by deduction).

(4) Profits from Colonial and Foreign Securities, where tax has not been deducted by the agent entrusted with payment thereof.

(5) Profits from Foreign and Colonial Possessions.

(6) All annual profits or gains not included under the foregoing heads and not charged under any other schedule.

Mode of Assessment.—Persons who are assessable to income tax under Schedule D have the option of being assessed either by the District Commissioners (*a*) in the ordinary course; (*b*) under a number or letter; or by the Special Commissioners. If they make no choice, they will be assessed in the ordinary course by the District Commissioners. Traders who have personal friends or business rivals among the local commissioners generally elect to be assessed by the Special Commissioners.

Returns for Assessment.—Returns for assessment by the District Commissioners under a letter or number must be sent to the Clerk to the Commissioners. Returns for assessment by the Special Commissioners must be forwarded to the Inspector of Taxes under cover marked "For Special Assessment." In other cases, the form must be returned to the Assessor or Inspector by

whom it was issued. The form must in all cases be filled up before being returned even if the return is nil. Anyone who neglects to make a Return, or who makes an untrue or incorrect return, is liable to the penalties mentioned on the form.

Profits from Colonial and Foreign Securities.—If these profits have been received through an agent who has deducted British income tax, they must not be entered on the Return Form. But in cases where British income tax has not been deducted, the full amount of the income, whether received in Great Britain or Northern Ireland or not, must be returned for assessment, subject, in the case of income not received in Great Britain or Northern Ireland, to deduction for any Income Tax deducted at the source. This applies to securities, stocks, shares, and rents.

Profits from Colonial and Foreign Possessions.—The amount to be entered in the form is the full annual amount, whether received in the United Kingdom or not, on the average of the three preceding years without any deduction.

Profits from Discounts, and Interest of Money not Taxed by Deduction.—Under this heading are included all Discounts and untaxed Interest received or credited. Interest on Banking Account or Deposits, and also Dividends on which the half-yearly amount does not exceed thirty shillings, where such dividends are not payable on coupons annexed to stock certificates payable to bearer.

Profits of Trade, Profession, or Vocation.—Where income is derived from the exercise of any business, profession or vocation, the amount of income to be returned for assessment in any given year is neither the actual income of that year, nor the income which a person expects to make in that year, but is a "statutory" income, the amount of which is to be computed from actual ascertained figures. These are the figures shown by the accounts of the business or profession for the three years immediately preceding the year for which a return has to be made, and the computation from them is to be made according to prescribed rules, of which the following is an abstract:—

RULES AND REGULATIONS FOR CALCULATING PROFITS

The Tax extends to the Profits of all Trades, etc., carried on or exercised in Great Britain or Northern Ireland by any Person whatsoever, whether a British subject or not, and wheresoever residing; and also to the Profits of Trades carried on or exercised elsewhere than in Great Britain or Northern Ireland if carried on or exercised by Persons residing in Great Britain or Northern Ireland.

Average.[1]—The amount of Profits is to be computed on an Average of the Three preceding Years, ending either on the date, prior to the 5th day of April, of the year of assessment, to which the Annual Accounts have been usually made up, or on the 5th day of April:

Or, if the Trade, etc., has been set up or commenced within three years, on an average from the period of commencing the same;

[1] *Note.*—It is probable that the average system will be abolished after 1927.

Or, if commenced within the year of Assessment, the Profits are to be estimated according to the best of one's knowledge and belief, and the grounds on which the amount shall have been estimated should be stated for the information of the Commissioners.

Deductions Allowed.—In computing the profits upon which the average is to be taken, the following deductions are allowed:—

(1) Repairs of Premises occupied for the purpose of the Trade, etc., and for the Supply or Repair of Implements, Utensils, or Articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.

(2) Debts proved to be bad; also for Doubtful Debts according to their Estimated Value.

(3) Rent of Premises used *solely* for the purposes of business, and not as a place of residence.

(4) A proportion, not exceeding two-thirds, of the Rent of any dwelling-house *partly* used for the purposes of business.

(5) The Annual Value of any premises occupied by the Owner *solely* for the purpose of business, and not as a place of residence, according to the amount on which duty has been paid under Schedule A[1]; less ground rent, if any.

(6) A proportion, not exceeding two-thirds of the Annual Value (according to the amount on which Duty has been paid under Schedule A—less ground rent, if any), of any dwelling-house occupied by the Owner and *partly* used for the purposes of business.

(7) Any other disbursements or expenses wholly and exclusively laid out for the purposes of the Trade, etc.

(8) Sums paid as Corporation Profits Tax.

(9) In cases (4) and (6) the Commissioners may allow a greater sum than two-thirds, where they consider circumstances warrant it.

Deductions Not Allowed.—In computing the profits upon which the average is to be taken, the following deductions are not allowed:—

(1) Interest on Capital, any Annual Interest, Annuity, or other Annual Payment, payable out of the Profits or Gains, or any Royalty or other sum paid in respect of the user of a Patent. (The duty on such Interest, Patent, Royalty, or other Annual Payment should be deducted from the person to whom the payment is made.)

(2) Sums paid as Salaries to Partners, or Drawings by Partners.

(3) Sums invested or employed as Capital in the Trade or Business, or on account of Capital withdrawn therefrom.

(4) Sums expended in Improvement of Premises or written off for Depreciation of Land, Buildings, or Leases.

(5) Loss not connected with, or arising out of, the Trade, etc.

(6) Expenses of Maintenance of the Persons assessable, their Families, or Establishments; or any sum expended in any other domestic or private purpose.

(7) Losses recoverable under an Insurance or Contract of Indemnity.

(8) Sums paid as Income Tax on Profits or Gains, or on the Annual Value of Trade Premises.

(9) Premiums for Life Assurance, or for Wear and Tear of Machinery or Plant; but Allowances may be Claimed in respect of these items.

Date to which Profits are to be Computed.—In certain cases the profits of a single year (and not the average profits of three years) are to be taken as determining the amount of the income

[1] In the case of mills, factories, and similar premises owned by a trading concern, the *full* annual value may be deducted instead of Schedule A assessment.

to be assessed. Where the single year is "the preceding year," the year to be taken is, strictly speaking, the year ended on the preceding 5th April; but, in practice, it is usually the last calendar year, or the last year to the date at which it is the custom of the taxpayer to make up his accounts. Similarly, where the single year is "the current year," this should in strictness be the current Income Tax year to 5th April following; but in practice it is usual to take the current calendar year.

Half-yearly Assessments.—Weekly wage-earners engaged in manual labour are assessed half-yearly on their wages arising from such employment. Returns are required to be made by employers according to the regulations of the Board of Inland Revenue. The assessments may be made at the place of employment or at the residence of the employee. Clerks, typists, and persons employed in any similar capacity are not included.

Payment of Tax by Instalment.—Income Tax may, in certain cases, be paid in two equal instalments, one on the 1st January, the other on 1st July. The following statement shows how the tax may be paid—

Schedule.	*One payment on 1st January.*	*Two payments on 1st January and 1st July.*	*Four quarterly instalments.*
A		In all cases.	
B	All cases not described in the next column.	Individuals and firms who occupy the lands for purposes of husbandry only.	
D	All cases not described in the next column, including— all companies, societies, bodies, etc.; all persons charged for unearned income, such as interest, foreign income, etc.	(1) Any individual or firm who carries on any trade, manufacture, adventure or concern in nature of trade. (2) Any individual or firm who exercises any profession or vocation.	
E		Any employees not described in the next column.	All weekly wage-earners employed by way of manual labour

ALLOWANCES

The Finance Act, 1920, introduced some very important changes regarding the method of arriving at the amount of taxable income. The chief of these changes were (1) to grant relief to earned income as compared with investment income, and (2) to graduate the burden of the tax according to the income of the taxpayer and to his family responsibilities. The investment income of taxpayers whose age is 65 years or over, and whose total income does not exceed £500, is now regarded as earned income. In the case of married persons, this relief is granted when either husband or wife is of this age.

Assessable Income.—To ascertain the amount of tax payable, the taxpayer first computes his total income from all sources. He then deducts one-sixth of the *earned* income in order to arrive at the *assessable* income. It should be carefully noted that this allowance is made in respect of *earned* income only, and in no case must it exceed £250 for any one individual. From the assessable income are then deducted the allowances to which the taxpayer may be entitled, the balance representing taxable income. The allowances referred to are dealt with below.

Total Exemption.—If the total *assessable* income of an individual who is a bachelor, spinster, widower, or widow does not exceed £135 no tax is payable. In the case of a married man whose wife is living with him the exemption limit is £225 of *assessable* income.

Examples. A is a single man receiving a salary of £108 a year. He has also income from investments amounting to £40.

Total Income . . .	£108 + £40 = £148
Assessable Income . .	108
Less ⅙ . . .	18
	£90 + £40 = £130 (exempt)

B is a married man with an earned income of £200, and an investment income of £40.

Total Income . . .	£200 + £40 = £240
Assessable Income . .	200
Less ⅙ . . .	33
	£167 + £40 = £207 (exempt)

Personal Allowance.—Where the taxpayer is not totally exempt he may claim the following allowance irrespective of the amount of his income, viz.,

In the case of an unmarried individual, £135;

In the case of a married man whose wife is living with him, £225.

If the total income includes any *earned* income of his wife, the personal allowance of £225 may be increased by nine-tenths of the amount of the wife's earned income, but the maximum additional allowance must not exceed £45.

Examples. A is a single man earning a salary of £400 a year. His income from investments is £80. On what amount is he taxable?

Total Income	£400 + £80 = £480
Assessable Income	£400
Less $\frac{1}{6}$	66
	£334 + £80 = £414
Personal Allowance	135
Taxable Income	£279

B earns £300 a year and his wife £30. What is the taxable income?

Total Income	£330
Assessable Income	330
Less $\frac{1}{6}$	55
	275
Less $\frac{9}{10}$ of wife's earned income	27
	248
Less Personal Allowance	225
Taxable Income	£23

C earns £546 and his wife £80. On what amount is tax payable?

Total Income	£626
Assessable Income	£626
Less $\frac{1}{6}$	104
	£522
Less Maximum Allowance for wife's earned income	45
	477
Less Personal Allowance	225
Taxable Income	£252

Children.—Any taxpayer who has a child or children living and under 16 at the commencement of the year of assessment, or who are over that age provided they are receiving full-time instruction at an educational institution, is entitled to relief from income tax equal to the amount of tax on £36 in respect of one child, and on £27 in respect of any other eligible children. This allowance also applies to adopted children and to step-children. The relief is not allowed if the child is entitled in his own right to income exceeding £40 a year. In calculating this income, any amount to which the child is entitled as the holder of a scholarship or similar educational endowment is omitted.

Example. A's salary is £453 a year. He is married and has four children; two are under 16 years of age, one is 18 years old, but is receiving full-time instruction at a technical school; the other is 15½ years of age, but is at work, receiving £50 a year as wages. On what amount will he have to pay tax?

Total Income	£453	
Assessable Income	£453	
Less ⅛	75	
		378
Deduct Marriage Allowance . . .	£225	
,, Children's Allowance, 1 at £36, two at £27	90	
		315
Taxable Income		£63

Note.—The allowance cannot be claimed for the child who is 15½ years old, as his income exceeds £40 a year.

Relatives Taking Charge of Children.—An allowance of £60 is granted to a widower in respect of a female relative of his or of his deceased wife who is resident with him for the purpose of having charge and care of any children of his in respect of which the children's allowance may be claimed, or to a widow who has a female relative of her or of her deceased husband's living with her for the same purpose. In 1924 the allowance was extended to all widows or widowers who keep a housekeeper, whether they have children or not. If the widower or widow has no such female relative, the deduction may be claimed in respect of some other female person employed for that purpose. An unmarried person who has living with him, and who maintains at his own expense, either his widowed mother or some other female relative for the purpose of having care of the taxpayer's brothers and sisters in respect of whom the children's allowance can be claimed, is also entitled to a deduction of £60. (For the years 1920-21 to 1923-24, the allowance was £45 only.)

Example. A, a widower, whose earned income is £670, has three children under 16 years of age. To take charge of these children A's unmarried sister lives with him. On how much will A be taxed?

Assessable Income . .	£670 –	£67 =	£603
Deduct Personal Allowance . . .	135		
„ Children's „ . . .	90		
„ Relative's „ . . .	60		
	——		285
Taxable Income . . .			£318

Dependent Relatives.—An allowance of £25 is granted to a taxpayer who maintains at his own expense (*a*) a relative of his or of his wife, who is incapacitated by old age or infirmity from maintaining himself or herself, (*b*) a widowed mother (whether incapacitated or not) of himself or his wife, (*c*) the taxpayer's daughter if she is resident with him, and if by reason of old age or infirmity he is compelled to depend upon her services. In the case of (*a*) and (*b*) the allowance is only granted if the income of the dependent relative does not exceed £50 a year. A female taxpayer can claim the above allowance under similar circumstances.

INCOME OF MARRIED WOMEN

To be Treated as Husband's Income.—By the Income Tax Act, the income of a married woman living with her husband is deemed to be his income. Any profits from business, profession, etc., or untaxed income belonging to the wife must be returned for assessment by her husband, and if exemption or relief is claimed, the whole of her income from all sources, whether taxed or not, must be included in the statement.

Separate Assessment of Husband and Wife.—If application is made by either husband or wife between the 6th November preceding the year of assessment and the 6th July in the year of assessment, income and super-tax for that year will be assessed and charged on the respective incomes of the husband and wife as if they were not married, and claims for relief and allowance will be apportioned between them. It should be noted that the total amount of allowance is still determined by the aggregate income of husband and wife as hitherto. Earned income relief will be given in proportion to the income earned by the husband and wife respectively. The personal allowance, marriage allowance, allowance for children and dependent relatives and the reduced rate of tax on the first £225 on taxable income are given in proportion to the assessable income of husband and wife respectively. Deduction in respect of an adopted child or dependent relative is allowed to the person supporting the child or dependent. An allowance for insurance premiums (see below) is given to the person paying them.

Example. A has an earned income of £1,600 and an unearned

income of £700. His wife's earned income is £400. They have three children under 16 years of age; A has adopted another child aged 5, and the wife supports her invalid mother. Show the separate assessments.

To make this clear the combined assessment is shown, in addition to the separate assessments.

COMBINED ASSESSMENT.

Total Income		£2,700
Less Earned Income Relief (maximum allowance)		250
Assessable Income		£2,450
Deduct Marriage Allowance, £225 + £45 (maximum allowance for wife's earned income)	£270	
Deduct Children's Allowance	117	
„ Dependent Relative	25	
		£412
		£2,038

HUSBAND'S ASSESSMENT.

Total Income		£2,300
Less Earned Income Relief $\frac{1600}{2000} \times \frac{250}{1}$ =		200
Assessable Income		£2,100
Deduct Marriage Allowance, $\frac{2100}{2450} \times \frac{270}{1}$ = £231		
„ Children's Allowance, $\frac{2100}{2450} \times \frac{90}{1}$ =	77	
„ Adopted Child =	27	
		335
		£1,765

WIFE'S ASSESSMENT.

Total Income		£400
Less Earned Income Relief $\frac{400}{2000} \times \frac{250}{1}$ =		50
Assessable Income		£350
Deduct Marriage Allowance $\frac{350}{2450} \times \frac{270}{1}$ = £39		
„ Children's Allow'ce $\frac{350}{2450} \times \frac{90}{1}$ =	13	
„ Dependent Relative	25	
		77
Taxable Income		£273

Rate of Tax.—All the relevant deductions having been made, the *taxable* income is arrived at. Of this, the first £225 is chargeable at half the standard rate of tax in force. The balance of the taxable income is chargeable at the full standard rate of tax.

Life Assurance Premiums.—From the amount of tax calculated on the taxable income an allowance for life assurance premiums may be claimed in respect of premiums paid on the taxpayer's own life and on that of his wife, subject to the following rules—

(*a*) The premiums must not exceed one-sixth of the total income from all sources.

(*b*) No allowance may be made for premiums in excess of 7 per cent. of the sum assured at death, all bonuses, etc., being ignored.

(*c*) If no sum is secured at death the allowance may not exceed £100.

It is further provided that, in the case of assurances or contracts for deferred annuities made after 22nd June, 1916: (1) no allowance whatever can be made unless a capital sum at death is secured either alone or with other benefits; (2) in the case of policy of deferred assurance no allowance may be made in respect of premiums or payments payable during the period of deferment. It should be noted, however, that policies or contracts in connection with a superannuation fund or *bona fide* pension scheme are not subject to these two restrictions.

Rates at which Insurance Premiums are Allowed—

An assurance or deferred annuity contract made *after* 22nd June, 1916, however large the income is	2s. in the £
All other assurances where the aggregate income does not exceed £1,000	2s. in the £
Where income exceeds £1,000, but does not exceed £2,000 . . . . . Provided the contract was made *before* 22nd June, 1916.	3s. in the £
Where income exceeds £2,000 . . . . Provided the contract was made *before* 22nd June, 1916.	4s. in the £

ALLOWANCES

Wear and Tear of Plant and Machinery.—Where Machinery or Plant belongs to the trader, or is so let to him that he is bound to maintain and deliver it over in good condition, an allowance may be claimed for diminished value of the same by reason of wear and tear. Where the lessee of plant and machinery is not responsible for maintenance, no allowance will be made to him. This allowance does not apply to buildings,[1] nor to horses and carts, tools, implements and utensils, though in the latter cases the cost of replacement (not exceeding the average of three years) is allowed as a deduction before ascertaining the statutory profits. The

[1] See foot-note on page 834.

allowance is calculated on the value of the Plant and Machinery at the commencement of the year; no allowance can be claimed for additions made during the year. The allowance will only be made where renewals have been charged to capital and repairs to revenue; if renewals have been charged to revenue, the trader must forego the allowance. In some cases, the trader may derive more benefit by waiving the claim for wear and tear, in return for being allowed to charge against the profits all repairs, renewals, and replacements of Plant and Machinery. Where machinery has been replaced in consequence of obsolescence, the loss on the sale of the same may be claimed as a deduction before ascertaining the assessable profits. If depreciation has been written off at a higher rate than that allowed, wear and tear may be calculated on the capital value of the Plant and Machinery as it would have been had depreciation been written off at the agreed rate. Previously, the allowance for wear and tear could be taken advantage of only to the extent of the profits available from which to deduct it. [1]Section 26 of Finance Act, 1907, changed this; it reads as follows—

(2) No deduction for wear and tear or repayment on account of any such deduction shall be allowed in any year, if the deduction when added to the deductions allowed on that account in any previous years to the person by whom the concern is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant, including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement, or reinstatement.

(3) Where as respects any trade, manufacture, adventure or concern, full effect cannot be given to the deduction for wear and tear in any year owing to there being no profits or gains chargeable with income tax in that year, or owing to the profits or gains so chargeable being less than the deduction, the deduction or part of the deduction to which effect has not been given, as the case may be, shall, for the purpose of making the assessment for the following year, be added to the amount of the deduction for wear and tear for that year and deemed to be part of that deduction, or if there is no such deduction for that year, be deemed to be the deduction for that year, and so on for succeeding years.

For example, suppose the average profits of a firm, as agreed with the surveyor, to be £2,000, and that the claim for wear and tear, as also allowed by the surveyor, to amount to £2,300, then £300 will be the balance to carry forward as an addition to the amount subsequently allowed as a deduction from future assessable profits.

The Finance Act, 1918, authorises application to a Board of Referees by any *class* of trade which is dissatisfied with the rate of depreciation allowed. The Board consists of professional

[1] Incorporated in the Income Tax Act, 1918.

and business men, who may now grant any rate of allowance for depreciation of plant and machinery which they consider just.

EXEMPTION

Exemption.—The following are exempt from assessment for income tax:—

(1) The Crown.

(2) Certain *Buildings* under Sch. A, such as public schools, university halls and colleges, hospitals, almshouses, literary and scientific institutions.

(3) Registered Friendly Societies and Trade Unions.

(4) Industrial and Co-operative Societies (but not exempt from tax under Sch. A).

(5) Trustee Savings Banks.

(6) Colleges, Universities, Scientific Institutions.

(7) Charitable Institutions (in so far as their income from rents, interest, and dividends and profit from trading is applied to charitable purposes).

(8) Certain National Health Insurance Funds in respect of the income of any Insurance Committee established under the National Insurance Act, 1911.

If any income is received less tax, repayment of the tax can be claimed in the above cases.

Earned Income.—This includes salaries and wages of employees, pensions, etc., salaries from public office or employment, managing director's remuneration, profits from the occupation of farms, profits from trade or business, including partners' salaries and interest on their capital in the case of acting partners. Where there are dormant or sleeping partners, the profits of such partners are regarded as *investment income*. The precedent acting partner of a firm has to make a declaration as to whether each partner is a "sleeping" or "acting" partner.

Investment Income.—Under this heading will be included all income obtained without personal service or effort, such as rents from the ownership of land, houses, etc., dividends from investments, interest on money lent, profits from business or trade in the case of a dormant or sleeping partner. When a private firm is converted into a limited company, its profits become *investment* income instead of earned as heretofore. The tendency of limited companies, especially private companies, is to remunerate the directors by means of a percentage on the annual profits, as such profit is then *earned* income; whereas if the profit is distributed by way of *dividend*, it would be unearned income.

SUPER-TAX

Rates of Tax.—The Finance Act, 1910, imposed for the first time a super-tax at a fixed rate on all individual incomes over a specified amount. There have been several changes in the rate: for the year 1926-27 incomes exceeding £2,000 are chargeable according to the following scale:—

Part of Income.	*i.e. part between*	*Rate.*
		s. d.
1st £2,000 of income . .	£0 and £2,000	NIL.
1st £500 above £2,000 .	£2,001 and £2,500	0 9
2nd £500 above £2,000 .	£2,501 and £3,000	1 0
£1,000 above £3,000 . .	£3,001 and £4,000	1 6
£1,000 above £4,000 . .	£4,001 and £5,000	2 3
£1,000 above £5,000 . .	£5,001 and £6,000	3 0
£2,000 above £6,000 . .	£6,001 and £8,000	3 6
£2,000 above £8,000 . .	£8,001 and £10,000	4 0
£5,000 above £10,000 . .	£10,001 and £15,000	4 6
£5,000 above £15,000 . .	£15,001 and £20,000	5 0
£10,000 above £20,000 . .	£20,001 and £30,000	5 6
All above £30,000 . . .	£30,001 and upwards	6 0

Mode of Assessment.—Super-tax is assessed and charged by the Special Commissioners. Every person liable to super-tax must, under penalty, give notice to the Special Commissioners before the 30th September in the year of assessment. And every person must, when called upon, make a return of his total income for super-tax purposes, whether liable to super-tax or not. If an individual fails to make a return, or makes an unsatisfactory return, the Special Commissioners may assess the amount of super-tax to the best of their ability. For super-tax purposes the total income of an individual from all sources is taken to be his total statutory income for the *previous* year, estimated in the same manner as the total income from all sources is estimated for the purposes of exemption or abatement. The same rights of appeal and recovery of duty apply to super-tax as to the other portions of the income-tax.

Private Limited Companies.—The Finance Act, 1922, made provision for the taxing of certain private limited companies.

If the Commissioners consider that any private limited company registered after 5th April, 1914, has not, within a reasonable time after the end of any period ending after 5th April, 1922, distributed a reasonable portion of its profits, they may treat the undistributed profits as having been received by the members of the company.

The directors of a company may make a statutory declaration, certified by the auditor—if a member of an incorporated Society of Accountants—stating the amount they propose to distribute and that the balance is a reasonable amount to retain, having regard to the requirements of the company. Unless they see reason to the contrary, the Commissioners will then take no further action in the matter.

Deductions Allowed.—By the Income Tax Act, 1918, section 5 (3), in estimating the income of the previous year for the purpose of super-tax, the following deductions are allowed :—

(*a*) There shall be deducted in respect of any land on which income tax is charged upon the annual value estimated otherwise than in relation to profits (in addition to any other deduction) any sum by which the assessment is reduced for the purposes of collection, or on which duty has been repaid under the provisions of this Act in respect of the cost of maintenance, repairs, insurance, and management ; and

(*b*) There shall be deducted in the case of an individual in the service of the Crown abroad, any such sum as the Treasury may allow for expenses which in their opinion are necessarily incidental to the discharge of the functions of his office and for which an allowance has not already been made ;

(*c*) Any income which is chargeable with income tax by way of deduction shall be deemed to be income of the year in which it is receivable, and any deductions allowable on account of any annual sums paid out of the property or profits of the individual shall be allowed as deductions in respect of the year in which they are payable, notwithstanding that the income or the annual sums, as the case may be, accrued in whole or in part before that year.

VARIATION IN METHOD OF ASSESSMENT UNDER SCHEDULE A

Coal, iron, lead, and copper mines are assessed on the annual value, which is the average profit for the preceding *five* years. Railways, quarries, gas and water works, bridges, markets, tolls, fishings, docks and canals are also assessed on the annual value, which, however, is the profit of the *previous* year. Special forms are provided.

ADJUSTMENT OF ACCOUNTS FOR ASSESSMENT

Two Methods in Use.—There are two methods of ascertaining the amount of profit assessable for income tax purposes :—

(1) To take the net profit as per the Profit and Loss Account, add back all those deductions which are not allowed by the Income Tax authorities, and deduct such items as are not taxable or have already been taxed.

(2) To take the gross profit as per the Trading Account and construct a new Profit and Loss Account, including only such profits as are taxable, and only those losses and expenses which are allowed by the Revenue Authorities to be deducted.

The student should accustom himself to both methods.

Examples.—The following is the Profit and Loss Account of Robert Reynolds, manufacturer, for the year ending 31st Dec. :—

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Bank Interest and Charges		20	–	–	By Gross Profit as per Trading A/c	2,368	– –
„ Subscriptions and Donations to Charities		15	–	–	„ Discounts Received	85	– –
„ Trade Expenses		128	–	–	„ Profit on Sale of Investments	45	– –
„ Income Tax, Sch. A, at 5/-		45	–	–	„ Dividends, *less tax*	22	– –
„ Income Tax, Sch. D		74	–	–			
„ Salaries		426	–	–			
„ Discounts Allowed		120	–	–			
„ Proprietor's Salary		260	–	–			
„ Repairs		32	–	–			
„ Bad Debts		87	–	–			
„ Bad Debts Reserve	£180						
Less Old Reserve	140						
		40	–	–			
„ Fire Insurance		18	–	–			
„ Office Expenses		37	–	–			
„ Loss by Cashier's Embezzlement (not covered by insurance)		60	–	–			
„ Depreciation—							
Lease		80	–	–			
Goodwill		35	–	–			
Plant and Machinery		46	–	–			
„ Interest on Loan		24	–	–			
„ Interest on Capital		120	–	–			
„ Ground Rent		25	–	–			
„ Balance (Net Profit)		828	–	–			
		2,520	–	–		2,520	– –

The assessable profits for the previous two years were £1,050 and £1,142 respectively. The inspector agrees to an allowance of £25 for wear and tear of plant and machinery. R. R. claims £23 for life assurance premium. The assessment under Schedule A is £180. Make up R. Reynolds's return for assessment for the current year.

First Method :—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT. *Cr.*

To Deduction of Items—					By Net Profit as per Profit and Loss Account	828	– –
[1] Full Annual Value of Premises :	216	–	–		„ Deductions not allowed, added back—		
Dividends (taxed)	22	–	–		Subscriptions and Donations	15	– –
Profit on Sale of Investments	45	–	–		Income Tax	119	– –
Balance (Assessable Profit)	1,309	–	–		Proprietor's Salary	260	– –
					Bad Debts Reserve	40	– –
					Depreciation	161	– –
					Interest on Loan	24	– –
					Interest on Capital	120	– –
					Ground Rent	25	– –
	1,592	–	–			1,592	– –

[1] See note at foot of page 834

Second Method :—

Dr. PROFIT AND LOSS ADJUSTMENT ACCOUNT. *Cr.*

To Bank Interest and Charges	20	–	–	By Gross Profit as per Trading Account	2,368	–	–
„ Trade Expenses	128	–	–	„ Discounts Received	85	–	–
„ Salaries	426	–	–				
„ Discounts Allowed	120	–	–				
„ Repairs	32	–	–				
„ Bad Debts	87	–	–				
„ Fire Insurance	18	–	–				
„ Office Expenses	37	–	–				
„ Cashier's Embezzlement	60	–	–				
„ Full Annual Value of Premises	216	–	–				
„ Balance (Assessable profit)	1,309	–	–				
	2,453	–	–		2,453	–	–

Average profit for current year's assessment is:—

(£1,050 + £1,142 + £1,309) ÷ 3 = £3,501 ÷ 3 =	£1,167
Deduct claim for Wear and Tear	25
	£1,142

As regards Schedule D, R. R. will deduct as earned income relief one-sixth of £1,142. He will also deduct any other allowances to which he is entitled, and thus arrive at his taxable income. On the first £225 of this he will pay tax at half the standard rate, and on the remainder tax at the full rate.

Example 2.—The trading results of the A B C Co., Ltd., for the last three years, as shown by their books, are: Profit £6,270, loss £685, profit £6,842 respectively. Before arriving at these figures, the following items have been charged or credited in the accounts :—

	(1)	(2)	(3)
	£	£	£
Pension to late Secretary	180	180	180
Directors' Fees	400	400	400
Rent of Trade Premises	360	360	360
Royalties paid	35	35	35
Dividends received	133	133	133
Depreciation of Plant and Machinery	225	250	240
Amount written off Goodwill	300	nil	260
Transfer to Reserve	240	nil	300
Debenture Interest	420	420	420
Sinking Fund to repay Debentures	150	150	150
Income Tax, Schedule D	330	200	270
Bank Interest	30	55	20
Transfer Fees received	45	45	45

The surveyor makes an allowance of £120 for wear and tear of plant and machinery. Make up the Company's Return for Assessment.

INCOME TAX RETURN

	(1)	(2)	(3)
	£	£	£
Profits as per Profit and Loss A/c. . .	6,270	—	6,842
Loss as per Profit and Loss A/c . . .		685	
Add deductions not allowed:—			
Pension to late Secretary	180	180	180
Royalties paid	35	35	35
Depreciation of Plant and Machinery . .	225	250	240
Amount written off Goodwill . . .	300	—	260
Transfer to Reserve	240	—	300
Debenture Interest	420	420	420
Sinking Fund instalment	150	150	150
Income Tax, Sch. D	330	200	270
	8,150	1,235	8,697
Deduct Loss in (2)		685	
	8,150	550	8,697
Deduct Dividends (already taxed) . .	133	133	133
Adjusted Profits . . .	8,017	417	8,564

Average profit for current year's assessment = (£8,017 + £417 + £8,564) ÷ 3 = £16,998 ÷ 3 = £5,666
Deduct Claim for Wear and Tear = 120

Assessment = £5,546

at the standard rate, the concern being a limited company.

Example 3.—The assessable profits of Thomas Lupin for income tax purposes for the last five years ending 30th April, 19.., were :— (1) £5,906 ; (2) £6,436 ; (3) £5,973 ; (4) £6,275 ; (5) £5,768 respectively. He occupies his own business premises, assessed at £244 gross. He owns house property, the rents of which amount to £385, assessed under Sch. A at £410 net. He receives £250 per annum for directors' fees. His wife has a private income of £800 p.a. free of tax from Investments. He and his wife are insured with a British and also with a New York Life Assurance Co. (London Branch), the annual premiums being respectively £200 paid by him and £100 paid by his wife. Make up T. Lupin's Return for Assessment for tax and super-tax for the current year.

The business profit returnable for the current year must be the average of the three preceding years ending either on 5th April or prior to 5th April. It will, therefore, be the average of (2), (3), and (4), viz., (£6,436 + £5,973 + £6,275) ÷ 3 = £18,684 ÷ 3 = £6,228.

RETURN OF INCOME FOR INCOME TAX PURPOSES

Particulars.	Total.		
Average of Business Profits	6,228	–	–
Annual Value of Business Premises (£244 less £20 plus ⅛th of £144—see p. 829)	200	–	–
Rents of House Property (Sch. A Assessment)	410	–	–
Director's Fees	250	–	–
Wife's Income from Investments (£800 + £200 for tax at 4/-)	1,000	–	–
	8,088	–	–
Less Income already taxed	1,410	–	–
	6,678	–	–

The taxpayer will be entitled to the following deductions:—

Maximum earned income relief	£250
Marriage Allowance	£225
Insurance Premiums (if allowable) @ 4s. in the £, provided the policies were taken out before 22nd June, 1916.	

The income for super-tax purposes is the statutory income for the year *previous* to the year of assessment. This, in the case of the business profits, was based on the average of (1), (2), and (3), and amounted to (£5,906 + £6,436 + £5,973) ÷ 3 = £18,315 ÷ 3 = £6,105.

RETURN OF TOTAL INCOME FOR SUPER-TAX PURPOSES

Schedule A:—			
Annual Value of Business Premises	200	–	–
Rents of House Property	410	–	–
Schedule C:—			
Wife's Income from Investments	1,000	–	–
Schedule D:—			
Average of Business Profits	6,105	–	–
Schedule E:—			
Director's Fees	250	–	–
Total Income for Super-tax	7,965	–	–

Interest on Loans and on Debentures.—Where a trader has deducted tax at the higher rate on any Interest on Loans, and is chargeable on his business profits at any lower rate, he must account to the Income Tax Authorities for the difference in tax on such interest; that is, he will not, in his capacity as collector for the Revenue Authorities, be allowed to make any gain therefrom. Again, if in any year he makes a statutory loss, he must still account for tax deducted on any interest. Likewise a joint stock company would be assessed on its debenture interest, even though for the year of assessment it had made a statutory loss.

PARTNERSHIPS

Partners and Income Tax.—Prior to 1907 partners could claim to be separately assessed, and could make a note on Form No. 11 to that effect. Now, however, the assessment is made on the firm. Partners can still claim relief, exemption, and allowances, but the allowances to which they may be individually entitled will be made on the firm's assessment. The effect of section 20 of the Income Tax Act, 1918, is as follows:—

> Where an individual carrying on or exercising any profession, trade, or vocation in partnership with any other person makes any claim for exemption, relief, or abatement under the Income Tax Acts, the income of the individual from the partnership for the year to which the claim relates may be treated separately for the purpose of any such exemption, relief, or abatement, and, if so treated, shall be deemed to be the share to which he is entitled during the said year in the partnership profits, such profits being estimated according to the several rules and directions of those Acts.

The partner makes a separate Return for the purpose of claiming allowances or earned income relief.

Example 1.—Jones, Barron, and Kerry are in partnership sharing profits and losses equally. Jones receives a salary of £500, Barron £400, and Kerry £300 per annum. The capitals of the partners are:—Jones £5,000, Barron £4,000, Kerry £3,000; and by the partnership deed each of the partners is entitled to interest on his capital at 5 per cent. per annum. The firm's assessable profits for the last three years, as agreed with the inspector, were (1) £8,244, (2) £7,879, and (3) £8,636 respectively. The partners have no other source of income. Draw up a statement showing how the tax payable by the firm should be allocated among the partners. What difference would it make if the charge for income tax was merely debited to the Rates and Taxes Account as an ordinary business expense?

The average = (£8,244 + £7,879 + £8,636) ÷ 3 = £24,759 ÷ 3 = £8,253. The allocation as between the partners is :—

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total.	Jones.	Barron.	Kerry.
	£	£	£	£
Interest on Capital	600	250	200	150
Partnership Salaries. . . .	1,200	500	400	300
Share of Assessable Profit divisible as Profits and Losses . . .	6,453	2,151	2,151	2,151
	8,253	2,901	2,751	2,601

from which each partner would claim the allowances to which he is entitled.

When the tax is paid, the best method of dealing with it is to charge each partner's share direct from the Cash Book to his Drawing Account. If the tax is merely debited to the Rates and Taxes Account like an ordinary business expense, the result is that it is ultimately transferred to the Profit and Loss Account and borne in the same ratio as general profits and losses, and in the present case, each partner would thus bear $\frac{1}{3}$ of the tax. The result is that Jones would be undertaxed, Barron would be properly taxed, and Kerry would be overtaxed; or, in other words, Kerry would be bearing a portion of the tax on Jones's profits.

Example 2.—Scott, Russell, and Smith are partners in a business, and share profits and losses four-ninths, three-ninths, and two-ninths respectively. Their capitals are :—Scott £7,000, Russell £6,000, Smith £4,000. The partners draw salaries as follows :—Scott £450 p.a., Russell £350 p.a., and Smith £200 p.a. They are also entitled to interest on their capitals at the rate of 5 per cent. per annum. Scott has a private income from house property assessed under Sch. A at £300 net. Russell has one child under 16 at the commencement of the year of assessment, and pays a life assurance premium of £55 per annum. His wife has an income of £200 gross from Investments. Smith pays an annual life assurance premium of £30. The assessable business profits for the last three years, as agreed with the surveyor, were (1) £4,989; (2) £3,846; (3) £4,572. Make up the firm's Return for assessment, and show the allocation of the tax among the partners.

Average = (£4,989 + £3,846 + £4,572) ÷ 3 = £13,407 ÷ 3

= £4,469. The firm's assessment will, therefore, be £4,469 *less* the allowances to be made to the partners individually.

STATEMENT ALLOCATING ASSESSABLE PROFIT BETWEEN PARTNERS

	Total.	Scott.	Russell.	Smith.
	£	£	£	£
Interest on Partners' Capital	850	350	300	200
Partnership Salaries	1,000	450	350	200
Share of Assessable profit divisible in same ratio as profits and losses	2,619	1,164	873	582
	4,469	1,964	1,523	982

Scott's total income is £1,964 plus £300 (already taxed), viz., £2,264. He will claim earned income relief on £250, and the personal allowance.

Russell's total income is £1,523 plus his wife's income £200 (already taxed), viz., £1,723. His allowances will be, earned income relief, £250; marriage allowance, £225; allowance for child, £36; insurance premiums on his own life, viz., £55.

Smith's total income is £982. Of this, £164 will be allowed as earned income relief. Smith will also claim the personal allowance, and the allowance for insurance premiums.

The firm's assessment will thus be—

			£4,469
Less Allowances—			
Earned Inc. Relief:			
Scott (maximum)	£250		
Russell	250		
Smith (one-sixth)	164		
		£664	
Personal Allowance:			
Scott (say)	£135		
Russell	225		
Smith (say)	135		
		£495	
Child's Allowance			
Russell		£36	
			1,195
			£3,274

Of this, £225 for each partner would be chargeable at half the standard rate, and the remainder at the full rate. From this amount would be deducted:—

Insurance Premiums:			
Russell	£55	@ (say)	3s.
Smith	30	@	2s.

Partners and Super-tax.—The following illustration, extracted from a circular issued by the Clerk to the Special Commissioners, should also be carefully studied :—

A firm consisting of three members (A, B, and C) might have :—

	£	£
Partnership profits as assessed for the year 1913–14 (say)		20,000
Partnership income receivable in the year from (*a*) Dividends upon Investments; (*b*) Interest; (*c*) Rents; (*d*) Annual Value of Premises; and (*e*) any other sources of taxed income (say)		
Dividends upon Investments	2,500	
Interest upon Loans	2,500	
Rents	2,500	
Annual Value of Premises owned and occupied by firm—*i.e.*, the net Income Tax Assessment (Sch. A)	2,500	
		10,000
Total income for Income Tax purposes		30,000
If the firm made any payments to third persons in respect of, for instance, (*a*) Ground Rents; (*b*) Annual Interest on Mortgage or other loans to the firm; (*c*) Annuities payable out of profits, these should be claimed as deductions from the above, as follows (say) :—		
Ground Rents	1,000	
Annual Interest	1,000	
Annuities payable out of Profits	1,000	
		3,000
Leaving		£27,000

which represents the sum which for Super-tax purposes is to be treated as divisible among the partners in the firm.

Supposing, therefore, that for the year 1913–14 under the Deed of Partnership, partner B is entitled to a salary of £1,000 as a first charge in the partnership profits, and that the capital of the firm, amounting for that year to (say) £60,000, held equally by the partners, is next directed to be credited with interest at 5% per annum, and that the balance of the profits is divisible in the proportion of: A, $\frac{5}{10}$; B, $\frac{3}{10}$; C, $\frac{2}{10}$; then the income from the partnership of each member of the firm for Super-tax purposes for the year 1914–15 would be as follows :—

	£	£
Partnership income for Super-tax purposes, as shown above		27,000
Less :—		
Managing Partner's Salary	1,000	
Interest on Partner's Capital (£60,000 at 5%)	3,000	
		4,000
Amount proportionally divisible among the partners		£23,000

A.		B.		C.	
	£		£		£
Interest on capital	1,000	Interest on capital	1,000	Interest on capital	1,000
Five-tenths profits	11,500	Three-tenths profits	6,900	Two-tenths profits	4,600
		Salary	1,000		
	12,500		8,900		5,600
			£27,000		

These sums of £12,500, £8,900, and £5,600 represent the amounts such partners A, B, and C respectively are for Super-tax purposes to be considered to have derived from this business, and should be entered by them in their several returns.

Partners who have borrowed, on their personal security, money which they put into the business should not treat the interest they pay thereon as a deduction in arriving at their shares of the *Partnership* profits, in space No. 1 (*a*) of the Form of Return, but such interest should be claimed as a deduction in space 2.

SPECIAL CLAIMS AND ALLOWANCES

Setting off Losses of one Business against the Profits of Another.—By the Income Tax Act, it is provided that where a person carries on, either solely or in partnership, two or more distinct trades, manufactures, adventures, or concerns in the nature of trade, the profits of which are chargeable under the rules of Schedule D, he may deduct or set off against the profits gained in one or more of the said concerns the excess of the loss sustained, in any other of the said concerns, over and above the profits thereof.

Example.—H. Humphrey is in partnership as a general hardware dealer, and his share of the statutory profits, as agreed with the surveyor, amounts to £1,057. He is also engaged in business as a grain merchant; from this source he sustains a loss, the statutory amount of which is agreed with the inspector at £740. In addition he has also a private income from Investments of £150 net. Make up his claim for relief under the above-mentioned Act.

RETURN OF TOTAL INCOME FROM ALL SOURCES

Business Profit as Hardware Merchant . .	£1,057				
Less Business Loss as Grain Merchant. .	740				
		317	–	–
Private Income from Investments, gross (say) . . .		200	–	–
Total Statutory Income		517	–	–

Business Loss in Year of Assessment.—By section 34 of the Income Tax Act, 1918, it is provided as follows:—

1. Where any person shall sustain a Loss in any Trade, Manufacture, Adventure, or Concern, or Profession, Employment or Vocation carried on by him either solely or in partnership, or in the Occupation of Lands for the purpose of Husbandry only, it shall be lawful for him, upon giving notice in writing to the Surveyor of Taxes for the district, within one year after the year of assessment, to apply to the Commissioners for the general purposes of the Acts relating to Income Tax for an adjustment of his liability by reference to the loss and to the aggregate amount of his income for that year estimated according to the several rules and directions of the said Acts.

2. The said Commissioners shall, on proof to their satisfaction of the amount of the loss, and of the payment of Income Tax upon the aggregate amount of income, give a Certificate authorising repayment of so much of the sum paid for Income Tax as would represent the tax upon income equal to the amount of loss, and such Certificate may extend to give exemption or relief by way of abatement in accordance with the provisions of the said Acts. Upon the receipt of the Certificate, the Commissioners of Inland Revenue shall cause repayment to be made in conformity therewith.

3. If any person shall be guilty of any fraud or contrivance in making any application under this section, or in obtaining any such adjustment or Certificate as aforesaid, he shall forfeit the sum of Fifty Pounds, to be recoverable as a penalty imposed by virtue of the Taxes Management Act, 1880.

4. Where repayment has been made to a person in any year under the provisions of this section, he shall not be entitled to claim, or be allowed, a deduction on the assessment for a subsequent year by reference to the amount of loss in respect whereof such repayment has been obtained.

When making a claim under this Act, the trader must forward with the official form a copy of his Trading and Profit and Loss Account for the particular year in question. This section of the Act applies only to an actual "statutory" loss; no claim can be made hereunder simply by reason of "diminishing profits." The advantage derived from a successful claim under this Act is, however, largely counterbalanced by the fact that such loss is not permitted to be brought into average for succeeding years. For example, suppose the adjusted results for three years were: (1) profit £874, (2) loss £483, (3) profit £1,163, the assessments in the following year would be as under :—

(a) *If Claim is made and is allowed.*	£	(b) *If no Claim is made.*	£
(1)	874	(1)	874
		(3)	1,163
			2,037
(2)	nil	*Less* Loss = (2)	483
(3)	1,163		
	3)2,037		3)1,554
Average =	£679	Average =	£518

and so on.

Repayment of tax can be claimed only to the extent of the income on which it has been paid. Thus, if the statutory loss amounts to £650, and tax has been paid only on £520, then tax can be recovered only on £520. The balance of £130 will be brought into average for succeeding years.

New Business.—By the Income Tax Act, 1918, it is enacted as follows :—

Where a person charged or chargeable with income tax in respect of any profession, trade, or vocation which has been set up or commenced within

the period of three years upon the average of which the profits or gains are to be taken under the Income Tax Acts, or within the year of assessment, proves within one year after the end of the year of assessment to the satisfaction of the Commissioners by whom the assessment has been or can be made that the actual profits or gains arising from the profession, trade, or vocation in the year of assessment fall short of the profits or gains as computed in accordance with those Acts, he shall be entitled to be charged on the actual amount of the profits or gains so arising instead of on the amount of the profits or gains so computed, and, if he has paid the full amount of the tax on the profits or gains so computed, be entitled to repayment of the amount overpaid.

Example.—Profits as estimated and taxed :—1st year, £720; 2nd year, £600; actual profits :—1st year, £615; 2nd year, £520. Make up claim for repayment under the above section.

1st year:	Profits as taxed	£720	
	Actual Profits	615	
	Claim for repayment of tax on		£105
2nd year:	Profits as taxed	615	
	Actual Profits	520	
	Claim for Repayment of Tax on		95

Discontinuance of Business.—Under the Act it is provided as follows :—

Where a profession, trade, or vocation is discontinued in any year, any person charged or chargeable with income tax in respect of that profession, trade, or vocation, shall be entitled to be charged on the actual amount of the profits or gains arising from the profession, trade, or vocation in that year and shall also, if he proves, to the satisfaction of the Commissioners by whom the assessment has been made or could have been made, that the total amount of the income tax paid during the three previous years, in respect of that profession, trade, or vocation, exceeds the total amount which would have been paid if he had been assessed in each of those years on the actual amount of the profits or gains arising in respect of the profession, trade, or vocation, be entitled to repayment of the excess.

Example.—Average profits as taxed :—(*x*) £840, (*y*) £680, (*z*) £520; actual profits :—(*x*) £590, (*y*) £450, (*z*) £400. Draw up claim for repayment under foregoing section.

		£	£
(*x*)	Average profits as taxed	840	
	Actual profits	590	
			250
(*y*)	Average profits as taxed	680	
	Actual profits	450	
			230
(*z*)	Average profits as taxed	520	
	Actual profits	400	
			120
	Claim for Repayment of Tax on		£600

Change or Succession.—By the Income Tax Act, 1918, when there is any change in a partnership on account of death, dissolution, or admission of new partner, or when any person succeeds to any trade, manufacture, adventure, or concern, or profession, within the period of assessment, the profits and gains are to be computed and ascertained in the same manner as before, that is to say, such change or succession will not affect the assessment. If, however, it can be proved to the satisfaction of the Commissioners that the profits and gains of the business have fallen short or will fall short since such succession or change or by reason of it, the Commissioners may, on the ground of *specific cause* alleged and proved, either amend the assessment or refund the amount overpaid as the case may be.

When two or more businesses are amalgamated, the average profits of the businesses will be added together, and will form the basis for ascertaining the new average for assessment.

When a private firm is converted into a limited company, the profits of the latter will be computed and ascertained on the same basis as if the firm had continued to exist.

SHARE OR PAPER PROFITS

Method of Assessment.—Joint Stock Companies occasionally make "paper" profits, which are commonly converted into fully-paid shares. In such cases the assessment of such profits for income tax is made as follows :—

(*a*) If the shares are distributed, they must be valued at the market price, or at a price to be agreed with the local commissioners. Tax is then payable on this value.

(*b*) If the shares are not distributed but held by the company, the assessment may remain in abeyance for three years, the company to account for any sold during this time. At the end of this period the shares will be valued, and tax is then payable on such value.

Profits made by promoters are sometimes issued in the form of fully-paid shares. These are treated in the same way as above. Tax is payable on the assessed value, less any expenses necessarily incurred by the party receiving them, *i.e.*, in the case of the promoter, the cost of issuing the prospectus, registration fees, etc., if borne by him.

CHANGE IN RATE OF TAX

Official Rules.—Where there has been an alteration in the rate of tax during the period in which the income has accrued, the following rules must be observed :—

(1) On Dividends and Interest from the Public Funds, from Foreign or Colonial Government Loans and Securities or from Foreign and Colonial

Companies, received in this country through an agent or bank, on Pensions and Salaries of officials, on Interest and Annuities paid by Municipal Corporations or Local Authorities to Creditors on Rates, tax must be deducted at the rate current at the time when such payment is actually made.

(2) On Annual Interest, Mortgage or Debenture Interest, Annual Value of Property, Ground Rent, etc., on Interest and Annuities payable out of profits or gains chargeable with income tax, on Dividends from Public Companies carrying on business in the United Kingdom, tax must be deducted at the rates ruling during the period in which such income has been accruing (*i.e.*, an apportionment must be made), and tax deducted from one portion at one rate and from the remaining portion at the other rate.

REPAYMENT

Statutory Provisions.—The following is a brief summary of the cases in which income tax already paid can be recovered by means of a claim for repayment:—

(1) Where the total income does not exceed £225 in the case of a married individual and £135 in other cases, and the whole or any part of such income has been received less tax.

(2) Where earned income relief has not been granted.

(3) Where a person is entitled to pay tax at a lower rate and his income or any part of it has been received less tax at a higher rate.

(4) Where a person is entitled to an allowance (*a*) for life assurance premiums; (*b*) for children under 16 years of age.

(5) Where a lessor of plant and machinery is entitled to an allowance for wear and tear.

(6) In the case of charitable institutions, public schools, literary and scientific institutions, etc., entitled to exemption.

(7) In cases of double assessment, *i.e.*, where a person has paid tax twice for the same year on the same income.

(8) Where the actual profits from working a farm amount to less than the statutory assessment, repayment of tax can be claimed on the difference. (Schedule B only.)

(9) In the case of an additional allowance in respect to maintenance of lands and buildings under Schedule A.

(10) Where business has been set up within three years, or during year of assessment.

(11) Where the business has been discontinued.

(12) Where a loss has been sustained.

(13) In the case of death or bankruptcy, or any other specific cause of falling off of profits.

Repayment claims may now be made half-yearly as well as yearly as heretofore.

Dominion Income Tax Relief.—On income which is chargeable both to British Income and Dominion Income Tax, relief is given by the British authorities at a rate determined as follows:—

(*a*) If the Dominion rate does not exceed half the appropriate British rate, the relief given is the Dominion rate.

(*b*) In any other case, the relief is one-half the appropriate British rate.

(*Finance Act*, 1920.)

The expression "Dominion" includes the self-governing Dominions, Irish Free State, India, all British possessions, protectorates, and mandated territories.

For the purpose of claiming relief, the "appropriate rate" is the average rate of income tax payable by an individual on his taxable income before the life assurance allowance is made. If super-tax is payable, the "appropriate rate" is the average rate of income tax as above plus the average rate of super-tax on the total income for super-tax purposes.

Example—

Total income of a married man with one child . .		£600
Deduct marriage allowance.	£225	
„ child's allowance	36	
		261
Taxable Income . .		£339

	£	s.	d.
Tax payable: £225 @ 2s. =	22	10	–
£114 @ 4s. =	22	16	–
	£45	6	–

$$\text{Appropriate Rate} = \frac{£45\ 6s.\ 0d.}{339} = 2s.\ 8d.\ \text{(to nearest penny)}$$

Assuming that part of the income has been subjected to Dominion taxation as well as British taxation, relief may be claimed on the income doubly taxed up to a maximum of 1s. 4d. in the £.

QUESTIONS ON CHAPTER XXI

A

1. What is income tax? What persons are liable to it?
2. What is meant by taxation of income "at source"? Give examples.
3. Who are (*a*) the District Commissioners; (*b*) the Additional Commissioners; (*c*) the Special Commissioners; (*d*) assessors; (*e*) inspectors; and what are their duties?
4. Can appeals be made against assessments? Whose decision is final (*a*) on questions of fact; (*b*) on questions of law?
5. Enumerate the schedules under which income tax is levied? What is the official year of assessment?
6. What rates of tax are there?
7. What is the scope of Schedule A tax? What is meant by "annual value"?
8. How are house and farm property assessed under Schedule A? Give examples.
9. Is the landlord's tax always collected from the tenant? Can the tenant deduct from his rent the full amount of tax paid?
10. What property is exempt from taxation under Schedule A. Is income taxable under this schedule regarded as earned or investment income?

B

1. What income is taxable under Schedule B, and is it earned or investment income ?
2. What is the mode of assessment under Schedule B ? Give examples. Has the taxpayer a choice of any other method ?
3. What taxable income is included under Schedule C ? Is it earned or investment income ?
4. What is the mode of assessment under Schedule C ? How is the tax usually collected ? Is there any exception ?
5. What income is taxable under Schedule E ? Is it earned or investment income ?
6. What is the mode of assessment under Schedule E ?
7. How is tax collected under Schedule E ? What exceptions are there ?
8. Are employers under any obligation to make a return for income tax purposes of the names, addresses, and salaries of their employees ?
9. What taxable income is comprised under Schedule D ? Is it earned or investment income ?
10. What is the mode of assessment under Schedule D ? What is meant by " statutory " income under this schedule ?

C

1. How is the income of married women regarded by the Income Tax Acts ? Can a wife claim to be separately assessed ?
2. What persons and things are exempt from assessment for income tax ?
3. What is meant by assessable income ? How is it arrived at ?
4. To what personal allowance is (*a*) a single man, (*b*) a married man, entitled ?
5. What relief is granted to persons with respect to earned income ?
6. What are the allowances granted in respect to (*a*) children, (*b*) dependent relatives, (*c*) life assurance premiums ?
7. What is " earned " income as defined by the Finance Act, 1907 ? Is the income of partners from a partnership earned or unearned income ? What declaration has to be made on Form 11 by the precedent acting partner ?
8. What income is comprised under the heading of " investment " income ? Are directors' fees and remuneration earned income ?
9. What is super-tax ? On whom is it levied ? What are the limits of income and rates of tax respectively ?
10. What is the mode of assessment for super-tax ? By whom is the assessment made ?

D

1. In estimating the " statutory " income for super-tax assessment, what deductions are allowed ?
2. What variations are there in the method of assessment under Schedule A ?
3. What two methods are there of adjusting accounts for income tax purposes ?
4. Can the annual value of trade premises under Schedule A be deducted in lieu of rent ? What is meant by a person having a " beneficial interest " in the assessment, and how is he affected thereby ?
5. Is a company liable for tax on its debenture interest when it makes a " statutory " loss ?
6. How is income tax collected from the partners in a partnership ? Can the partners claim to be separately assessed for the purpose of obtaining the abatements, allowances, and relief to which they may be individually entitled ?

7. How are the assessable profits adjusted in order to arrive at a partner's income (*a*) for income tax, (*b*) for super-tax ?

8. How should the income tax payable by a firm in respect of its partners be dealt with in the firm's accounts ?

9. Can losses sustained in one business be set off against the profits earned in another ? Give reasons for your answer.

10. What are the provisions of section 34 of the Income Tax Act, 1918, with respect to a business loss in the year of assessment ?

E

1. What advantages and disadvantages attach to a claim made under section 23 of the Customs and Inland Revenue Act, 1899 ?

2. How far can repayment of tax be claimed under the above section ?

3. What are the provisions of the Income Tax Act, 1918, with respect to a " new " business ?

4. What are the provisions of the Income Tax Act, 1918, with respect to " discontinuance " of business ?

5. What are the provisions of the Income Tax Act, 1918, with respect to change or succession in business ?

6. What is the basis of assessment (*a*) when two or more businesses are amalgamated ; (*b*) when a private firm is converted into a limited company ?

7. What is meant by " specific cause " with respect to income tax, and what allowances can be claimed by virtue of it ?

8. How are share or " paper " profits valued for purposes of income tax ?

9. What is the correct method of deducting tax when, during the year of assessment, there has been an alteration in the rate of tax ?

10. State briefly some of the cases in which income tax already paid can be recovered.

EXERCISE XXI

1. The undermentioned Profit and Loss Account is that of James Brown, Dairyman, for the year ended 31st December—

Dr.	PROFIT AND LOSS ACCOUNT.		*Cr.*
To Office Salaries . .	£857	By Balance from Trading Account . . .	£2,299
,, Rent (1 year) . .	200	,, Provision for Bad Debts : Amount reserved—	
,, Taxes (Sch. D paid for last assessment) .	56	Last year . £321	
,, Trade Expenses . .	532	Amount reserved—	
,, Insurance (Fire) . .	42	this year . £277	
,, Travelling Expenses .	86		44
,, Depreciation on Plant at 15% . . .	96		
,, Bad Debts written off .	113		
,, Discount Account .	36		
,, Balance, being net profit carried down . .	325		
	£2,343		£2,343

Prepare an account for submission to the Income Tax Surveyor, and show the amount upon which James Brown will have to pay tax for the current year.

The profits of the business in the previous three years ending 31st December, as agreed with the surveyor prior to any allowance for wear and tear of plant, were as follows: (1) £2,062; (2) £1,250; (3) £786. Has James Brown, in your opinion, any grounds for claiming a repayment of income tax for the previous year?—(*London Chamber of Commerce.*)

2. What is "super-tax"? Upon whom is it levied? Upon what basis are the trading profits of a partnership assessed for this tax?—(*London Chamber of Commerce.*)

3. You are required to prepare the return, for income tax assessment under Schedule D, for the current year from the following particulars which relate to the business of Messrs. Boorman & Bashall, who share profits equally. The Profit and Loss Accounts prepared by the firm's accountants showed, for the last three years, the following results: (1) profit, £3,219; (2) profit, £1,294; (3) profit, £1,984.

Before arriving at the above profits the following items were charged in the accounts:—

	(1)	(2)	(3)
	£	£	£
Interest on Capital	490	510	520
Income Tax (Schedules D and A)	67	72	84
Partners' Salaries	300	300	300
Depreciation on Plant	150	165	151
Charitable Donations	15	16	20

The firm's premises are freehold and are assessed for Property Tax (Sched. A) at £600 per annum. The Surveyor of Taxes for the district declines to allow the above provisions for depreciation, but agrees to an annual allowance of £100 for wear and tear. Mr. Bashall holds a policy of assurance, with a British office, upon his own life, the annual premium upon which amounts to £56.—(*London Chamber of Commerce.*)

4. A B and C D are in partnership as manufacturers of printers' type. Their annual accounts are prepared upon the usual prudent lines, and duly provide for depreciation, bad debts, and like matters.

Is it probable that the net profit of the above business, as shown by the annual accounts of the firm, would be accepted by the Surveyor of Taxes as representing the amount assessable under Schedule D for income tax purposes? Give examples of any surcharges that you consider probable, if you are of opinion that the profit, as shown by the firm's accounts, would not be accepted as the basis of the assessment.—(*Royal Society of Arts.*)

5. What allowances can be claimed in 1920–21, the circumstances being as follows: Firm's assessment, £1,050. Partners' shares, A, £400; B, £350; C, £300. Partners' private (unearned) incomes: A, 78; B, 460; C, nil. Partners' life assurance premiums: A, £19; B, nil; C, £30. Children under 16: A (unmarried), nil; B, three; C, one.

5 (*a*). An unmarried man's sole income is represented by a Schedule E assessment of £402. He pays £15 allowable life assurance premiums. What assessment would be made if a return form has been duly completed? What tax would he ultimately bear in 1923-24?

6. In preparing accounts for the Inspector of Taxes showing profits taxable under Schedule D, how would you deal with the undermentioned items?—(*a*) Bank Interest; (*b*) Defalcation by Cashier; (*c*) Depreciation of Land and Buildings; (*d*) Fire Insurance; (*e*) Partners' Salaries; (*f*) Interest on Capital; (*g*) Rents from Cottage Property; (*h*) Premium on Leasehold.—(*Lancashire and Cheshire Union.*)

7. Is an employer under any obligation to the Income Tax Authorities with reference to the salaries paid to his staff?—(*Royal Society of Arts.*)

8. Robert Laws has been surcharged by the Surveyor of Taxes with the under-mentioned items in reference to his assessment under Schedule D—

(*a*) 5% depreciation only, instead of the 10% claimed, has been allowed;
(*b*) Interest on loan from J. Smithers disallowed;
(*c*) Cost of removing offices to new buildings disallowed;
(*d*) Subscription to local hospital disallowed.

Has Robert Laws any right of appeal against these surcharges? If so, what course is open to him, and what chance of success has he in respect of the above items?—(*Royal Society of Arts, Accounting and Banking.*)

9. The undermentioned items appeared in the annual accounts of a Limited Company. State briefly how they should be treated, when preparing the Company's return under Schedule D for income tax purposes—

(*a*) 5% reserve on total Sundry Debtors as a provision for Bad and Doubtful Debts.
(*b*) Interest received on deposit account with the Dresdner Bank, Old Broad Street, E.C.
(*c*) Premiums received on an issue of new shares.
(*d*) Loss by embezzlement by one of the Company's travellers.—(*Royal Society of Arts, Accounting and Banking.*)

10. The profits of The Paglesham Forgings Co., Ltd., for the previous two years were (1) £3,542 and (2) £3,721, and were duly agreed with their surveyor for Schedule D purposes. The profit shown by the published accounts of the Company for the past year amounted to £4,050. Before arriving at this profit, the accounts had been charged with various reserves amounting to £500, and, in addition, £600 had been written off the Preliminary Expenses Account. Both these amounts were surcharged by the Inspector. The Schedule A assessment was allowed at £3,500. The Company's claim for 10% depreciation on some special machinery employed by them, and for an allowance for obsolete machinery which they had scrapped were disallowed by the Surveyor; but, on appeal to the local Commissioners, an allowance under these heads amounting to £3,200 was granted. Show the result of the above facts upon the Company's income tax return and mention any special point which arises.—(*London Chamber of Commerce.*)

11. The Profit and Loss Account of Wm. White showed a credit balance of £2,040 for the past year ended 31st December, as compared with £1,850 and £3,210 for the two previous years. These profits were arrived at after debiting the following items:—

	(1) £	(2) £	(3) £
Wm. White, Salary (paid weekly through the Salaries Account)	250	250	250
Interest on Capital at 5%	152	175	181
Sinking Fund, for replacement of Engine	100	100	100
Subscription to the King's Hospital Fund	10	10	10
Employers' Liability Insurance	50	52	54

White also owns house property of the gross value of £800 per annum, subject to ground rents of £150 per annum. The property is mortgaged for £2,000 at 4½% per annum. He also holds £4,000 Great Eastern Railway Consolidated 4% Preference Stock, and £2,500 Henry Tate & Sons 4½% Debenture

Stock. Make out William White's Income Tax return for the current year. —(*Royal Society of Arts, Accounting and Banking.*)

12. The following is the Profit and Loss Account of J. Aines for the year ended 31st March, he having started business on the 1st April of the previous year:—

	£	s.	d.		£	s.	d.
To Stock, 1st April	2,130	–	–	By Sales	8,000	–	–
„ Purchases	5,896	–	–	„ Stock, 31st March	1,560	–	–
„ Trade Expenses	748	–	–				
„ John Aines, salary	150	–	–				
„ Life Insurance	93	–	–				
„ Schedule A Tax @ 5s.	30	–	–				
„ Mortgage Interest, *less* Tax	48	–	–				
„ Depreciation 10% per annum	212	–	–				
„ Interest on Capital	103	–	–				
„ Net Profit for the year	150	–	–				
	£9,560	–	–		£9,560	–	–

Make out summary for Income Tax purposes, showing the tax payable, assuming that the Surveyor has agreed to assess on the one year's profits. The business premises belong to John Aines, and are assessed under Schedule A at £120. The allowance for wear and tear is 5%.—(*Lancashire and Cheshire Union.*)

13. Adjust for Income Tax (Schedule D) purposes the Profit and Loss Account of Messrs. Robert Sawyer & Son, Timber Merchants, set out below, and show the amount assessable for tax. The profits for the past two years ending 31st December upon which tax was payable, were agreed with the Inland Revenue Surveyor at £2,304 and £1,858 respectively.

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Salaries		£920	By Balance from Trading A/c £5,430
„ Bad Debts		425	
„ Interest on Capital at 5%		1,050	
„ Income Tax		56	
„ Depreciation of Plant at 10%		780	
„ Loss through Embezzlement		108	
„ Reserve for Bad Debts—			
This year	£720		
Last year	870		
		150	
„ Annuity to G. Sawyer, sen.		350	
„ Profit for the year c/d		1,591	
		£5,430	£5,430

—(*Royal Society of Arts, Accounting and Banking.*)

14. The businesses of Norman Brown and Saxon Green were amalgamated under the style of "Brown & Green" on 1st March, and the following Profit and Loss Account shows the result of the first year's trading of the partnership—

Dr.	£	s.	d.		£	s.	d.	*Cr.*
To Salaries (including £200 paid to each Partner)	1,200	5	–	By Gross Profit	3,000	–	–	
„ Interest on Capital	190	–	–	„ Interest on Consols	35	17	4	
„ Income Tax (Sch.D)	9	14	10	„ Rent of portion of Premises sub-let at 10s. per week	26	–	–	
„ Rent	190	5	2					
„ Rates	76	19	2					
„ Interest on Loan	11	6	–					
„ Depreciation on Machinery (15% on £600)	90	–	–					
„ Balance carried down	1,293	7	2					
	£3,061	17	4		£3,061	17	4	

The Profit and Loss Account balances (after adjustment for Income Tax purposes) of the individual firms for the three preceding years ending 1st March were as follows—

Brown.—(1) Profit, £760; (2) profit, £940; (3) profit, £1,010.
Green.—(1) Profit, £40; (2) profit, £50; (3) loss, £20.

You are required to prepare the firm's Income Tax Return for the current year (ignoring the question as to how the profits are divided). An allowance of 7½% for wear and tear of Machinery had been agreed to with the Surveyor. —(*London Chamber of Commerce.*)

15. The undermentioned items appeared in the accounts of the Pleasure Steamers Co., Ltd. How should you deal with them when preparing the Company's return under Schedule D, for Income Tax purposes?

(*a*) Profit of £1,500 realised by the sale of London and General Omnibus Co.'s stock, which formed part of the Reserve Fund Investments.

(*b*) £150 written off during the year, representing one-fifth of the Preliminary Expenses Account.

(*c*) Depreciation, at the rate of 6%, written off the cost price of the Company's steamers.

(*d*) 3,000 fully-paid shares of £1 each, received as part purchase price from a subsidiary Company and distributed, by way of bonus, to the Pleasure Steamers Co. shareholders.—(*Royal Society of Arts, Accounting and Banking.*)

16. Alfred Tate is an author. From the following particulars make up his return for Income Tax and Super-tax purposes for the current year. State the amount of tax payable in each case, taking a rate of 4s. 6d.

Income from books: 1st year, £700; 2nd year, £900; 3rd year, £1,700. Alfred Tate also possesses £50,000 3½% Colonial Stock and £60,000 Chinese Government 4½% Bonds. He is insured with the Prudential Assurance Co. and pays an annual premium of £150. His wife has no income. He has one child under 16 years of age.—(*London Chamber of Commerce.*)

17. M, N & P carry on business in partnership, sharing profits and losses in the following proportions—

M, seven-fifteenths; N, five-fifteenths; P, three-fifteenths.

Their Profit and Loss Accounts for the past three years were as follows:—

	(1)	(2)	(3)		(1)	(2)	(3)
Salaries	£290	£295	£305	Gross Profits	£1,900	£2,050	£1,920
Trade Expenses	90	115	80				
Bad Debts	24	25	26				
Interest on Loan	25	25	25				
,, on Capital M	50	50	50				
Interest on Capital N	30	30	30				
P's Salary	350	350	350				
Goodwill written off	50	50	50				
Charitable Subscriptions	20	24	28				
Net Profit	971	1,086	976				
	1,900	2,050	1,920		1,900	2,050	1,920

Prepare return for Income Tax for the year ending 5th April next, showing on what amount the firm would be assessed.

18. C's total income consists of a salary of £750 and £100 from War Loan interest from which Income Tax is not deducted before receipt. He is married, has two children under 16 years of age, maintains his widowed mother, and pays a life assurance premium of £20. What tax will he pay when the standard rate is 4s. 6d.?

19. A merchant is asked to render his Account for Assessment of Super-tax for the current year. His share of the profits of his firm's business for the three years assessable for super-tax, averages (after charging Income Tax) £7,000 a year, in addition to which he received £2,000 a year for management, and interest upon his capital amounted to £3,000 a year. He has a house, assessed under Schedule A at £208 6s. 8d., and Railway Stock producing in the past year a net income of £753 6s. 8d. Prepare the Account for the Commissioners, and show the amount of tax payable. (Rate 4s. 6d.) —(*Chartered Accountants.*)

20. A and B are partners whose profits adjusted for Income Tax purposes are: 1917, £8,740; 1918, £7,652; 1919, £8,808. A takes three-quarters of the profits and B takes one quarter. A pays an annual life assurance premium of £520 on his own life, £87 on that of his wife. Both these may be assumed to be allowable. In 1919 he was credited with £69 interest, untaxed. A is a married man; B is a bachelor. Show the amount of tax payable by the firm after allowing for all deductions due to each partner.

REVISION EXERCISE XXI

1. What do you understand by the following terms? (*a*) Floating Assets; (*b*) Fixed Assets; (*c*) Preliminary Expenses, and how dealt with; (*d*) Self-balancing Ledgers; (*e*) Watering of Stock; (*f*) Allonge.—(*National Union of Teachers.*)

2. What is a "Cumulative Preference Share"? The A B Co., Ltd., is three years in arrear with the dividends on its 1,000 6% Cumulative Preference Shares of £1 each. Would this fact affect the annual accounts? If so, how? —(*Royal Society of Arts, Accounting and Banking.*)

3. Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained.—(*Royal Society of Arts, Accounting and Banking.*)

4. What is the difference, if any, either in result or in method of preparation, between a Balance Sheet and a Statement of Affairs?—(*London Chamber of Commerce.*)

5. The Birchets Mineral Water Co., Ltd., sends out cases of aerated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10% from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet?—(*London Chamber of Commerce.*)

6. Explain the difference between: (*a*) Sinking Fund; (*b*) Reserve Fund; (*c*) Reserve Account.—(*Lancashire and Cheshire Union.*)

7. A firm of motor manufacturers contracted to supply 50 cabs, on agreed dates, to a motor cab company. The agreed delivery dates were as follows:—

10 Cabs on 1st June	10 Cabs on 1st September
10 „ 1st July	10 „ 1st October
10 „ 1st August	

Under the agreement the manufacturers, in case of late delivery, were liable to refund to the Cab Company any *actual loss* which might arise owing to non-delivery of cabs on the promised dates. The manufacturers were not, however, to be liable for any loss of profit which might have been earned by the cabs if delivered as promised. The first batch of cabs was delivered on the agreed date, the second batch was 7 days late, the third 10 days late, the fourth 15 days late, and the fifth 8 days late. The rent and other fixed charges of the Cab Company were the same for 10 cabs as for 50, namely, £30 per week. Prepare an account showing the claim to be made by the Cab Company and explain the reasons which guided you in its preparation.—(*London Chamber of Commerce.*)

8. The following is the Trial Balance of the Chicago Branch of a London firm:—

TRIAL BALANCE. 31st December, 19—.	*Dr.* $. *c.*	*Cr.* $. *c.*
Head Office A/c—1st Jan.		32,602·00
Remittance A/c	14,000·00	
Stock, 1st Jan.	5,085·00	
Fixtures and Fittings	2,736·00	
Purchases	17,846·00	
Sales		35,806·00
Debtors	17,710·00	
Creditors		2,062·00
General Expenses	7,601·00	
Discount (balance)		418·00
Cash at Bank	5,450·00	
„ in hand	460·00	
Stock, 31st Dec., 19— = $5,025:00	70,888·00	70,888·00

The following information is given you—

Rate last 31st December, and for Fixtures	$4·86
,, this 31st December	$5·00
Average Rate for year	$4·92

In the Head Office books, the Branch Account balance at the beginning of the year was £6,502 14s. 6d. The Remittance Account stands at £2,786 6s. 11d. As Accountant to the firm, effect the necessary conversion into sterling, and make the necessary entries in the Head Office books to incorporate the above figures. Show also the accounts in the Head Office and Branch Books respectively.

9. F. Saunders files his petition. The following balances appear in his books :—

Cash in hand, £40; Bank Overdraft, £200; Stock-in-Trade, £1,000 (expected to produce, £800); Machinery, £900 (expected to produce £750); Trade Fixtures, £300 (expected to realise £100); Book Debts: Good, £500; Doubtful, £220 (expected to produce, £100); Bad, £120; Unsecured Creditors, £2,500; Bills Payable, £1,000; Fully-secured Creditors, £2,500 (who hold security value £3,500); Partly-secured Creditors, £3,000 (who hold security value £1,000); Liabilities on Bills Discounted expected to rank, £250; Creditors for Half-year's Rent, £120, and for Rates and Taxes (12 months), £20; Preferential Wages and Salaries, £50.

Prepare Statement of Affairs. How much in the £ does the estate show approximately ?

10. Phillips & Thomas, Ltd.

BALANCES, 31ST DECEMBER

Goodwill	£5,000	–	–	Coal and Coke	£768	4	9
Trade Expenses	246	5	4	Salaries	942	15	3
Freehold Estate (Factory), 1st Jan.	5,800	–	–	Additions to Plant during year	240	–	–
Models	150	–	–	Bank Interest *Cr.*	24	5	6
Rent received (House), half-year to 30th June last	10	–	–	Bad Debts	189	5	3
				Legal Expenses	17	9	5
				Petty Cash Book	120	6	6

BALANCES, 31ST DECEMBER (*contd.*)

Loan on Mortgage, 4% *Cr.*	£4,000	–	–	8,000 £1 6% Preference Shares	£8,000	–	–
Dwelling-house	400	–	–	Extension to Premises (Factory)	240	–	–
Sales Ledger Balances	6,091	5	4	Bank Deposit Receipt, dated 30th June last at 3%	500	–	–
Purchases	37,960	3	7	Horse-keep and Cartage	346	5	7
Rates and Taxes	146	5	4	Machinery and Plant, 1st Jan.	2,164	–	–
14,000 £1 Ordinary Shares	14,000	–	–	Mortgage Interest to 30th June	80	–	–
Engine and Boiler	560	–	–	Discount received	842	5	4
Stock, 1st Jan.	8,215	5	4	Cash	89	6	4
Travelling Expenses	218	4	3	Bought Ledger Balances	2,481	10	3
Repairs	158	4	11	Returns & Allowances *Dr.*	166	8	4
Returns Outwards	85	14	9	Wages	5,878	2	7
Discount allowed	2,035	4	2	Bills Receivable	985	8	2
Preference Dividend to 30th June	240	–	–	Bank Commission	52	5	7
Insurance	76	9	8	Sales	51,870	5	4
Bank: Current A/c	944	–	9				
Horses, Carts, & Harness	229	10	–				
Subscriptions and Donations	63	4	9				

The Petty Cash item, £120 6s. 6d., as per Balances, represents the following payments :—

	£ s. d.	£ s. d.
Goods Bought	33 9 2	
Repairs	27 18 5	
Horse Keep	15 5 7	
Travelling	24 15 2	
Sundry Expenses	14 3 7	
		115 11 11
and the Petty Cash in hand 31st December is		4 14 7
		£120 6 6

At 31st December the Stock is : Goods, £7,346 15s. 7d. ; Coal, £56.

Rates are prepaid, £15. Half-year's Rent of House, £10, is due. The Interest on Bank Deposit Receipt has accrued, but is not credited to the Company in their current Banking Account. Accounts for Extensions to Premises are owing, £200. Of the Debtors, £346 is estimated to be bad. A Bill Receivable in hand, £150, is known to be bad. Depreciation is 1% on Freehold, 10% on Engine and Boiler, 5% on Machinery and Plant, and it is decided to write off one-fourth of the Extensions Account, and to treat the Models as being worth £200. Sales Ledger balances include £300 Smith Bros., who are creditors in the Bought Ledger for £250.

Reserve 5% Discount on the good debts.
Prepare Trading Account, Profit and Loss Account, and Balance Sheet as at 31st December.—(*West Riding of Yorkshire.*)

11. The following balances were extracted from the books of the Stambridge Publishing Co., Ltd., as on 31st December. The nominal capital of the Company consists of 10,000 Ordinary Shares of £1 each, and 4,000 6% Preference Shares of £5 each. In addition to the publishing department, the Company has a "Supply Department" for the sale of the various goods advertised in its publications.

The publishing stock, as on 31st December, was valued at £700, and the supply stock at £4,500.

Before preparing the annual accounts, it is necessary to take the following matters into consideration:—

(*a*) £500 provision for Bad and Doubtful Debts is to be made, no provision having been made in the past.

(*b*) Write off 10% depreciation on Furniture, etc.

(*c*) Charge 2½% on the net profits of the business as Managing Director's commission.

(*d*) Half the cost of the designs is to be borne by each department.

(*e*) Write off one-third of the General Advertising Expenses and carry forward the balance.

(*f*) It was decided to pay no dividend on the Ordinary Shares for the year ended 31st December, but to pay the Preference Dividend and to transfer £2,000 to Reserve. This latter transfer has not been made.

You are required to prepare a Publishing Trading and Profit and Loss Account, a Supply Trading and Profit and Loss Account, and a general Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

LEDGER BALANCES.

Copyrights Account	£18,000	Cash at Bank	£1,760
Directors' Fees	400	Profit and Loss Account (Credit balance, 1st Jan.)	4,120
Calls in Arrear (being 10s. per share on 20 Ordinary Shares)	10	Bank Charges	10
General Office Salaries	300	Paper and Printing	4,250
Engraving Blocks	150	Subscribers (amounts received)	40
Rent, Rates, and Taxes	400	Bad Debts	20
Stationery (General Office)	80	Advertisements received	4,100
Literary Contributions	400	Wages and Salaries	500
Insurance	30	Reserve Account	3,000
Goodwill	4,000	Cash in hand	90
Supply Department Sales	17,000	Supply Department—	
General Advertising Expenses	6,000	Purchases	9,000
Designs for Publications	1,000	Carriage	1,200
General Expenses	350	Trade Expenses	150
Publishing Sales	5,500	Wages and Salaries	1,500
Managing Director's and Secretary's Salaries	1,500	Discount Account (debit balance)	30
Dividend paid on Preference Shares	1,130	Postage and Telegrams	90
Furniture, Fixtures, and Fittings	940	Travelling Expenses	60
Publishing Department—		Ordinary Share Capital	4,790
Carriage	140	Preference Share Capital	20,000
Postage and Telegrams	30	Bills Payable	2,200
Publishing Department—		Sundry Debtors	3,220
Advertising Expenses	150	Stock, 1st Jan.—	
Trade Expenses	110	Publishing Department	800
Discount Account (debit balance)	10	Supply Department	4,000
		Sundry Creditors	1,250
		Bills Receivable	190

—(*London Chamber of Commerce.*)

12. The following is a summary of the Profit and Loss Account of William Lincoln for the year 1923.

Prepare an adjusted account showing the liability to income tax.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31ST DECEMBER, 1923

To Salaries	£700	By Gross Profit	£7,260
„ Insurance, Rates, etc.	350	„ Rents Received	50
„ Income Tax, Schedule D	180	„ Interest on War Loan (gross)	100
„ „ „ A (at 5s. in £)	75		
„ Bank Interest	86		
„ Loan Interest	100		
„ Discount	560		
„ Bad Debts	1,300		
„ Reserve for Bad Debts	500		
„ Interest on Capital	250		
„ Depreciation of Plant, 10%	250		
„ Sundry Expenses	1,000		
„ Net Profit	2,059		
	£7,410		£7,410

—(*Union of Lancashire and Cheshire Institutes.*)

13. The Pernet Manufacturing Co., Ltd., was registered in 1920 with a Nominal Capital of £200,000, divided into 150,000 Ordinary Shares of £1 each and 10,000 6 % Preference Shares of £5 each. Of this Capital, 65,000 Ordinary Shares had been subscribed for and allotted to the public and 20s. per share called up. The whole of the Preference Shares had been issued and fully called and paid up.

On 1st January, 1923, the Company took over the Assets and Liabilities of Lamia, Ltd., at their book values, which were as follows : Sundry Debtors, £16,136 ; Sundry Creditors, £3,862 ; Stock, £14,850 ; Machinery and Plant, £10,890 ; Cash, £1,986.

The purchase price was agreed at £50,000, and was satisfied by the issue of 50,000 Ordinary Shares in the Pernet Co. issued to the Lamia Co. as fully paid.

On 1st July, 1923, 200 5 % Debentures of £100 each were issued at 95.

In addition to the records arising out of the above particulars, the following balances were extracted from the books of the Company as on 31st December, 1923 :—

Machinery and Plant	£32,765
,, ,, Additions during 1923	8,456
Leasehold Works	77,841
Manufacturing Wages	86,968
Profit and Loss Account (debit balance 31/12/22)	7,862
Sinking Fund for Leasehold Redemption	8,850
Sundry Debtors	12,460
,, Creditors	35,503
Stock (31/12/22)	32,641
Factory Power and Light	3,642
General Expenses	4,785
Purchases	76,495
Uncompleted Contracts (31/12/22)	13,844
Unpaid Calls (Ordinary Shares)	500
Returns Inwards	864
,, Outwards	3,241
Loose Tools	2,864
Machinery and Plant sold during 1923	5,641
Management Salaries	3,522
Machinery Repairs	1,267
Office Salaries	3,842
Directors' Fees	750
Office Furniture	684
Discount Account (debit balance)	174
Reserve for Bad Debts (31/12/22)	500
Travellers' Salaries and Commission	6,894
Carriage on Purchases	3,641
,, on Sales	4,846
Transfer Fees	146
Sales	169,159
Cash at Bank	3,246
,, in hand	1,187
Loan from Bank	15,000
Patents	20,000

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 31st December, 1923, and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration :—

(*a*) No provision has been made for the Debenture Interest due on 31st December, 1923.

(*b*) As on 31st December, 1923, the following items were due but not recorded in the books: Wages, £996; Office Salaries, £226; and Directors' Fees, £750.

(*c*) Manufacturing Wages, £541, were paid to workmen employed in making Loose Tools for the Company's use, but the requisite transfer had not been made.

(*d*) The Manufacturing Account is to be charged with two-thirds of General Expenses and Management Salaries.

(*e*) Reserve £500 for fine under an uncompleted contract now subject to litigation.

(*f*) The following valuations were made as on 31st December, 1923: Machinery and Plant, £32,640; Loose Tools, £2,951; Office Furniture, £600; Stock, £28,740; and Uncompleted Contracts, £9,641.

(*g*) Reserve 2½ % for Travellers' Commission outstanding on December Sales, which were £13,960.

(*h*) The Bad Debt Reserve is to be made equal to 5 % on the Sundry Debtors.—(*London Chamber of Commerce.*)

CHAPTER XXII

SINGLE ENTRY, HIRE-PURCHASE ACCOUNTS, INSTALMENT PAYMENT PURCHASES, ROYALTIES, INVESTMENT ACCOUNTS, STOCK EXCHANGE TRANSACTIONS, TABULAR BOOK-KEEPING

Definition of Single Entry.—Single Entry is a method of book-keeping under which only personal accounts are kept, *i.e.*, accounts concerning only Debtors and Creditors.

System Obtaining in Some Businesses.—Pure single entry is seldom met with in actual practice. The methods in use, called by the name of single entry, are frequently a mixture of no entry, single entry, and double entry. Subsidiary books, such as Purchases Books, Sales Books, Returns Books, and Bill Books are sometimes kept, but only the personal side of each transaction is posted to the Ledger. A Cash Book is generally used to record receipts and payments; and, whenever posting from the Cash Book, etc., takes place, there is, of course, an instance of double entry.

Disadvantages of Single Entry.—The following are the principal disadvantages:—

(1) *The Record of Transactions is Incomplete.* As was explained in the first chapter of the present book, every transaction affects two accounts, and these accounts are sometimes personal and sometimes impersonal. Hence, if only personal accounts are kept, the record of transactions is only partial, and, therefore, incomplete.

(2) *No Information Respecting the Assets.*— Owing to the absence of real or property accounts, no information can be derived from the Ledger respecting the general assets or property of the business.

(3) *No Information Concerning the Gains and Losses.* Owing to the absence of nominal accounts, no information is furnished by the Ledger respecting the various gains and losses of the business. There is, therefore, no data to afford a comparison of present and past years, thus making it impossible to trace the origin of any loss or of any decrease of profit.

(4) *The Final Results are Unreliable.* Owing to the one-sided posting, it is impossible to take out a Trial Balance, so that even the arithmetical accuracy of the Ledger cannot be verified. Further, the final Statement of Affairs, or Balance Sheet, as it is erroneously called, is entirely unreliable. Assets may be omitted, lists of Debtors or Creditors may be added incorrectly, and the values placed on assets that are shown may be far from accurate.

How Profit or Loss is Ascertained under Single Entry.—In order to ascertain profit or loss under single entry, a comparison is made between the capitals at the commencement and the close of the trading period. If the final capital is greater than the initial capital, the

excess is regarded as profit; if the final capital is less than the initial capital, the deficiency is assumed to be loss. Capital in each case is the excess of assets over liabilities. Allowance must be made, of course, for additions and withdrawals of Capital, Partners' Salaries not drawn in cash, Interest on Capital, and Drawings on account of profits.

Example.—L. W. Groves & T. Spindler are equal partners in a business in which the books are kept by single entry. The position of affairs on 1st January was as under:—

Liabilities		*Assets*	
Bills Payable	£646 5 10	Cash in hand	£27 14 6
Sundry Creditors	2,028 17 8	Cash at Bank	219 11 3
Capital Accounts—		Bills Receivable	406 18 5
L. W. Groves	7,339 14 –	Sundry Debtors	4,867 10 2
T. Spindler	7,339 14 –	Stock	3,285 9 4
		Plant and Machinery	8,017 11 4
		Furniture and Fixtures	529 16 6
	£17,354 11 6		£17,354 11 6

The following was the state of affairs on 31st December: Cash in hand, £39 16s. 8d.; Cash at Bank, £584 10s. 6d. Debtors, £5,628 15s. 11d.; Bills Receivable, £684 3s. 9d.; Stock, £3,672 18s. 6d. Creditors, £2,147 3s. 10d.; Bills Payable, £594 11s. 4d. The partners had drawn £450 each, and were further entitled to interest on their Capital at 5 per cent. per annum. It was agreed to depreciate Plant and Machinery at the rate of 10 per cent., and Fixtures and Fittings at 5 per cent. Draw up the final accounts.

STATEMENT OF PROFIT AND LOSS

31ST DEC., 19—

Creditors		2,147 3 10		Plant and Machinery	£8,017 11 4		
Bills Payable		594 11 4		Less Depreciation	801 15 2		
		2,741 15 2				7,215 16 2	
Balance (final Capital) c/d		15,587 13 –		Furniture and Fixtures	£529 16 6		
				Less Depreciation	26 9 10		
						503 6 8	
				Stock		3,672 18 6	
				Debtors		5,628 15 11	
				Bills Receivable		684 3 9	
				Cash in hand		39 16 8	
				Cash at Bank		584 10 6	
		18,329 8 2				18,329 8 2	
Capital, 1st Jan.		14,679 8 –		Capital, 31st Dec., b/d		15,587 13 –	
Interest to 31st Dec.—				Drawings—			
L. W. Groves	£366 19 8			L. W. Groves	£450		
T. Spindler	366 19 8			T. Spindler	450		
		733 19 4				900 –	
Balance (Net Profit)—							
L. W. Graves ½	£537 2 10						
T. Spindler ½	537 2 10						
		1,074 5 8					
		16,487 13 –				16,487 13 –	

STATEMENT OF AFFAIRS

AS AT 31ST DEC., 19—

Liabilities							*Assets*						
Bills Payable				594	11	4	Cash in hand	39	16	8			
Creditors				2,147	3	10	Cash at Bank	584	10	6			
Capital Accounts—											624	7	2
L. W. Groves,							Bills Receivable				684	3	9
1st Jan.	7,339	14	—				Sundry Debtors				5,628	15	11
Add Interest	366	19	8				Stock				3,672	18	6
„ Share of Profit	537	2	10				Plant and Machinery	8,017	11	4			
							Less Depreciation	801	15	2			
	8,243	16	6								7,215	16	2
Less Drawings	450	—	—				Furniture and Fixtures	529	16	6			
				7,793	16	6	*Less* Depreciation	26	9	10			
T. Spindler, 1st Jan.	7,339	14	—								503	6	8
Add Interest	366	19	8										
„ Share of Profit	537	2	10										
	8,243	16	6										
Less Drawings	450	—	—										
				7,793	16	6							
				18,329	8	2					18,329	8	2

Conversion of Books from Single Entry to Double Entry.—In order to convert books from Single Entry to a system of Double Entry, a Statement of Assets and Liabilities, representing the position of affairs at the commencement of the trading period, must, first of all, be drawn up. Lists of Debtors and Creditors must be prepared, allowances being made for bad debts and discounts. Assets, such as Plant and Machinery, Furniture and Fixtures, Stock, etc., must be valued. The Cash and Bank balances must be ascertained. Accruing expenses, such as Rent, etc., must be entered. The excess of the total Assets over the total Liabilities would then give the initial Capital required to complete and balance the Statement. Opening entries would then be made in the Journal in the usual way, the assets being entered in the *Dr.* column and the liabilities in the *Cr.* column, the necessary particulars being copied from the Statement. The posting of these entries into the ledgers will place the set of books on a double entry basis.

The next task will be the writing up of the double entry for the period. The Purchases Book must be added, the contents analysed, and the totals posted to Purchases Account, Plant Account, Fixtures Account, Expenses Account, etc. The Sales Book must be added, and the total posted to the Sales Account. The Purchases Returns Book and the Sales Returns Book must also be added and the totals posted to Purchases Returns Account and Sales Returns Account respectively.

Where subsidiary books have not been kept, the above information would have to be obtained by analysing and summarising the items on both sides of the Ledger accounts. The Cash Book must next be dealt with. All unposted items must be entered in the Ledger. These items will be such as affect impersonal accounts, *e.g.*, expenses

such as Rent, Wages, Salaries, etc.; Cash Purchases and Sales, the purchase or sale of any assets, such as Plant, Furniture and Fixtures, etc.; the totals of the Discount columns. The Bill Books must also be added, and the totals posted to the Bills Receivable and Bills Payable Accounts respectively. All one-sided entries found in the Ledger, such as overcharges, allowances for short weight, or for empties returned, interest, dishonoured bills, bad debts written off, etc., must be journalised to their respective impersonal accounts. The whole of the transactions will then have been entered on a double entry basis, and a Trial Balance can be extracted to prove the accuracy of the work.

HIRE-PURCHASE ACCOUNTS

Definition.—The hire-purchase system is a system under which money is paid for goods by means of periodical instalments, with the ultimate view of purchase. All money being paid in the meantime is regarded as payment for hire; and the goods become the property of the buyer only when all the instalments have been paid. If default is made in payment of the instalments, the owner can recover possession of the goods.

Entries in the Buyer's Books.—It will be obvious that, if payment of the value of the goods is to be made over a protracted period, such payment will include charges for interest. And it will be found that the total of the instalments is more or less the cash value of the goods, plus interest on the balance of purchase money from time to time unpaid. In the books of the buyer, therefore, no entry will be made until the first instalment is paid. This will then have to be apportioned between capital and revenue. It will be necessary to ascertain the cash value of the goods, and also the rate of interest charged for hire. Whenever an instalment is paid, the interest on the cash value, or the unpaid portion of it, must be worked out. The amount of the interest will represent the proportion of the instalment to allocate to revenue, *i.e.*, to debit to Profit and Loss as the charge for hire; and the balance of the instalment will be the amount to charge to capital, *i.e.*, to debit to an Asset Account.

How Depreciation is Dealt With.—Some accountants contend that it is quite wrong to take depreciation into consideration at all; that it is, in fact, an error of principle to depreciate, in our books, goods that belong to other people. But it must be remembered that these payments are being made with the ultimate object of making the goods our own. The disadvantage of not making provision for depreciation can be clearly seen from the following illustration. Suppose we agree to buy goods on the hire-purchase

system, and that the payments are to extend over a period of five years. Suppose, also, that the payments are continued and the articles eventually become our property. At the end of the period the goods will appear in our books at their cost price (*i.e.*, at the price of new ones), and yet the articles will have been in use for five years. This, too, is obviously wrong in principle. The object of providing for depreciation, therefore, is that the asset shall appear in the books, at the end of the purchasing period, at its then value. This is achieved by writing depreciation off the cash value of the asset; in other words, by depreciating the asset in the same way as other assets bought for cash or on credit. Any repairs or renewals that may become necessary will, of course, be charged to Profit and Loss Account.

Example.—A Colliery Company purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Company charges interest at the rate of 5 per cent. per annum on the yearly balances. Show the accounts in the books of the buyer. Depreciation to be reckoned at 10 per cent.

The cash value of the Wagons may be taken as the present value of an annuity of £600 for 5 years at 5 per cent. interest. Reference to the Table shows that the present value of an annuity of £1 for 5 years at 5 per cent. is £4.329477. This amount multiplied by 600 gives us £2,597 13s. 9d. as the cash value of the wagons.

In Buyer's Books

Year.	JOURNAL.	*Dr.*	*Cr.*
1	Wagon A/c	470 2 4	
	Wagon Hire A/c (5% £2,597 13s. 9d.)	129 17 8	
	To Wagon Company		600 – –
2	Wagon A/c	493 12 5	
	Wagon Hire A/c (5% £2,127 11s. 5d.)	106 7 7	
	To Wagon Company		600 – –
3	Wagon A/c	518 6 1	
	Wagon Hire A/c (5% £1,633 19s.)	81 13 11	
	To Wagon Company		600 – –
4	Wagon A/c	544 4 4	
	Wagon Hire A/c (5% £1,115 12s. 11d.)	55 15 8	
	To Wagon Company		600 – –
5	Wagon A/c	571 8 7	
	Wagon Hire A/c (5% £571 8s. 7d.)	28 11 5	
	To Wagon Company		600 – –

LEDGER

Dr. INSTALMENTS ON WAGONS ON HIRE-PURCHASE ACCOUNT. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Wagon Co.	470	2	4	1	By Depreciation, 10% £2,597 13s. 9d.	259	15	4
						„ Balance c/d	210	7	–
		470	2	4			470	2	4
	To Balance b/d	210	7	–	2	By Depreciation, 10% £2,337 18s. 5d.	233	15	10
	„ Wagon Co.	493	12	5		„ Balance c/d	470	3	7
		703	19	5			703	19	5
3	To Balance b/d	470	3	7	3	By Depreciation, 10%, £2,104 2s. 7d.	210	8	3
	„ Wagon Co.	518	6	1		„ Balance c/d	778	1	5
		988	9	8			988	9	8
5	To Balance b/d	778	1	5	4	By Depreciation, 10%, £1,893 14s. 4d.	189	7	5
	„ Wagon Co.	544	4	4		„ Balance c/d	1,132	18	4
		1,322	5	9			1,322	5	9
5	To Balance b/d	1,132	18	4	5	By Depreciation, 10%, £1,704 6s. 10d.	170	8	8
	„ Wagon Co.	571	8	7		„ Balance c/d	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d	1,533	18	3					

The item would be described on the Balance Sheet as "Instalments paid on Wagons on Hire-Purchase," or simply "Wagons on Hire-Purchase Agreement."

Dr. WAGON HIRE ACCOUNT. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Wagon Co.	129	17	8	1	By Profit and Loss A/c	129	17	8
2	„ „ „	106	7	7	2	„ „ „ „	106	7	7
3	„ „ „	81	13	11	3	„ „ „ „	81	13	11
4	„ „ „	55	15	8	4	„ „ „ „	55	15	8
5	„ „ „	28	11	5	5	„ „ „ „	28	11	5

Dr. WAGON COMPANY. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Cash	600	–	–	1	By Sundries	600	–	–
2	„ „	600	–	–	2	„ „	600	–	–
3	„ „	600	–	–	3	„ „	600	–	–
4	„ „	600	–	–	4	„ „	600	–	–
5	„ „	600	–	–	5	„ „	600	–	–

The value of the Wagons is exactly the same as if we had bought them for cash and written off depreciation annually at 10 per cent., as the following illustration clearly shows—

Dr. WAGON ACCOUNT. *Cr.*

Year.					Year.				
1	To Cash	2,597	13	9	1	By Depreciation, 10%	259	15	4
						„ Balance c/d	2,337	18	5
		2,597	13	9			2,597	13	9
2	To Balance b/d	2,337	18	5	2	By Depreciation, 10%	233	15	10
						„ Balance c/d	2,104	2	7
		2,337	18	5			2,337	18	5
3	To Balance b/d	2,104	2	7	3	By Depreciation, 10%	210	8	3
						„ Balance c/d	1,893	14	4
		2,104	2	7			2,104	2	7
4	To Balance b/d	1,893	14	4	4	By Depreciation, 10%	189	7	5
						„ Balance c/d	1,704	6	11
		1,893	14	4			1,893	14	4
5	To Balance b/d	1,704	6	11	5	By Depreciation, 10%	170	8	8
						„ Balance c/d	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d	1,533	18	3					

Another method, and the one advocated by the present editor, is to open with an entry—

	Dr.			*Cr.*		
Wagons under Hiring Agreement	2,597	13	9			
To Vendor				2,597	13	9

crediting the Vendor with interest from time to time, and debiting him with the instalments just as is advocated (later) for Instalment Payment Purchases. In this case the item would be stated on the Balance Sheet as—

Wagons under Hiring agreement	£2,104	2	7
Less liability in respect thereof	1,633	19	–
	£470	3	7

It will be noticed that this produces the same result as the former method, the £470 3s. 7d. being made up of two instalments:—

	£963	14	9
Less depreciation for 2 years	493	11	2
	£470	3	7

Exception is sometimes taken to this on the ground that the

wagons do not *belong* to the hirer, but the above point as to Depreciation is the answer to that objection, viz., that it is intended that they *shall* eventually belong to him.

This method also has the advantage of keeping an account which agrees with that in the books of the wagon owner. (*See* next paragraph.)

Entries in Seller's Books.—In the Seller's books the items will be entered at their cash value into a special Hire-Purchase Day Book. From this they will be posted to the debit of the purchaser's account in the Ledger. Periodically, the total of the Hire-Purchase Day Book will be posted to the credit of a Hire-Purchase Sales Account. As each instalment falls due, the customer's account will be debited with interest on the unpaid amount of it. This interest will be credited to a Hire-Purchase Interest Account, and, at balancing time, will be transferred to Profit and Loss Account along with other profits. The goods, however, are not yet the absolute property of the buyer; and if default is made in payment, the seller may re-take possession of them. It is, therefore, necessary to make a Reserve to cover any possible loss that might be sustained through such a contingency.

Example.—A Colliery Company purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £600. The Wagon Co. charge interest at the rate of 5 per cent. per annum on yearly balances. The cash value of the goods is £2,597 13s. 9d. Show the accounts in the books of the seller.

In Seller's Books

LEDGER

COLLIERY COMPANY.

Dr.						*Cr.*					
Year.						Year.					
1	To Hire Purchase Sales A/c			2,597	13 9	1	By Cash			600	– –
	„ Interest 5%			129	17 8		„ Balance c/d			2,127	11 5
				2,727	11 5					2,727	11 5
2	To Balance b/d			2,127	11 5	2	By Cash			600	– –
	„ Interest 5%			106	7 7		„ Balance c/d			1,633	19 –
				2,233	19 –					2,233	19 –
3	To Balance b/d			1,633	19 –	3	By Cash			600	– –
	„ Interest 5%			81	13 11		„ Balance c/d			1,115	12 11
				1,715	12 11					1,715	12 11
4	To Balance b/d			1,115	12 11	4	By Cash			600	– –
	„ Interest 5%			55	15 8		„ Balance c/d			571	8 7
				1,171	8 7					1,171	8 7
5	To Balance b/d			571	8 7	5	By Cash			600	– –
	„ Interest 5%			28	11 5						
				600	– –					600	– –

Dr. HIRE-PURCHASE INTEREST. *Cr.*

Year.			Year.		
1	To Profit and Loss A/c	129 17 8	1	By Colliery Co.	129 17 8
2	" " " "	106 7 7	2	" " "	106 7 7
3	" " " "	81 13 11	3	" " "	81 13 11
4	" " " "	55 15 8	4	" "	55 15 8
5	" " " "	28 11 5	5	" "	28 11 5

Second Method of Dealing with Hire-Purchase Accounts.—Where numbers of articles of much smaller value are being sold daily on the Hire-Purchase System, the foregoing method of book-keeping is rather too elaborate, and a simpler plan is therefore adopted.

A Hire-Purchase Day Book is kept, in which the Hire-Purchase Sales are entered *at cost*. A Hire-Purchase Ledger is also employed, but this is only a memorandum book. An account is opened for each customer, who is debited at once with the total amount due from him, and credited periodically as the instalments are received; the balance of the account at any time shows the amount still due from the customer.

The total of the Hire-Purchase Day Book is posted periodically in the General Ledger to the debit of a Hire-Purchase Account and to the credit of an account entitled Goods on Hire-Purchase, this latter account being closed eventually to Trading Account. At balancing time, the stock in the hire purchaser's hands is valued *at cost*, written in on the credit side of the Hire-Purchase Account, and brought down as a balance for the new period. The difference between the *Dr.* and *Cr.* columns of the Hire-Purchase Account will then represent the profit to date on the hire-purchase business, and will be transferred like other profits to the Profit and Loss Account. The following is a specimen of such a Hire-Purchase Account:—

Dr. HIRE-PURCHASE ACCOUNT. *Cr.*

19—			19—		
Jan. 1	To Stock in Customers' hands (at cost)	1,017 6 8	Dec. 3	By Cash received from hire purchasers during the Year	2,059 13 2
Dec. 31	" Hire-Purchase Sales for Year (at cost)	4,084 19 11	"	" Stock in Customers' hands, at cost (total of instalments still due less proportion of profit)	3,546 15 8
"	" Balance (profit to date) transferred to Profit and Loss A/c	504 2 3			
		5,606 8 10			5,606 8 10
19—					
Jan. 1	To Stock b/d	3,546 15 8			

INSTALMENT-PAYMENT PURCHASES

Difference between Hire-Purchase and Instalment-Payment Purchase.—Under the Hire-Purchase system, the property in the goods does not pass to the buyer, but remains vested in the seller until the last instalment has been paid; and, if default is made in payment, the seller can re-take possession of the goods. Under the instalment-payment system of purchase, however, the property in the goods passes at once to the buyer. He actually owns the goods, although payment for them is to be spread over a series of years. If default is made in payment, the seller cannot re-take possession of the goods; he can only sue for the balance of the debt. This difference naturally causes a variation in the method of book-keeping.

Entries in the Books of the Buyer.—The Asset Account will be debited with the *cash value* of the asset, and this amount will be credited to the account of the Vendor. The Vendor's account will be credited each year (or at other intervals as arranged) with interest at an agreed rate on the balance outstanding, the interest being debited to Interest Account. As each instalment is paid, Cash Account will be credited and Vendor's Account debited.

Example.—A Colliery Company purchases on the instalment-payment system a number of Coal Wagons, to be paid for by five annual instalments of £600 each. The cash value of the Wagons is £2,597 13s. 9d., and the Wagon Company charges interest at 5 per cent. per annum on yearly rests. Write up the accounts in the books of the purchaser, charging depreciation at 10 per cent. per annum on the diminishing balance. (*See* next page.)

Alternative Method.

Entries in the Books of the Buyer.—In the purchaser's books an Asset Account will be opened and debited with the *cash value* of the goods. The difference between this amount and the purchase price will represent the charge for interest, and will be debited to an Interest Suspense Account. An account will also be opened for the Vendor, and will be credited with the total amount to be paid by the purchaser, viz., cash value plus interest. As each instalment is paid, Cash Account will be credited and the Vendor's Account debited. At each annual balancing, a portion of the Interest Suspense Account will be written off (*i.e.*, transferred as a loss to Profit and Loss Account). The amount to be so transferred will be an amount equal to the interest on the then unpaid balance of purchase money. Thus, by the time the period

In Purchaser's Books

JOURNAL.

Year.		Dr.			Cr.		
1	Wagon A/c	2,597	13	9			
	To Wagon Company . .				2,597	13	9
	for present value of Wagons purchased on the instalment-payment system.						

LEDGER

Dr. WAGON ACCOUNT *Cr.*

Year.					Year.				
1	To Wagon Co. . . .	2,597	13	9	1	By Depreciation, 10% .	259	15	4
						„ Balance c/d . .	2,337	18	5
		2,597	13	9			2,597	13	9
2	To Balance b/d . .	2,337	18	5	2	By Depreciation, 10% .	233	15	10
						„ Balance c/d . .	2,104	2	7
		2,337	18	5			2,337	18	5
3	To Balance b/d . .	2,104	2	7	3	By Depreciation, 10% .	210	8	3
						„ Balance c/d . .	1,893	14	4
		2,104	2	7			2,104	2	7
4	To Balance b/d . .	1,893	14	4	4	By Depreciation, 10% .	189	7	5
						„ Balance c/d . .	1,704	6	11
		1,893	14	4			1,893	14	4
5	To Balance b/d . .	1,704	6	11	5	By Depreciation, 10% .	170	8	8
						„ Balance c/d . .	1,533	18	3
		1,704	6	11			1,704	6	11
	To Balance b/d . .	1,533	18	3					

Dr. WAGON COMPANY. *Cr.*

Year					Year.				
1	To Cash . .	600	–	–	1	By Sundries . .	2,597	13	9
	„ Balance . .	2,127	11	5		„ Interest . .	129	17	8
		2,727	11	5			2,727	11	5
2	„ Cash . .	600	–	–	2	„ Balance . .	2,127	11	5
	„ Balance . .	1,633	19	–		„ Interest . .	106	7	7
		2,233	19	–			2,233	19	–
3	„ Cash . .	600	–	–	3	„ Balance . .	1,633	19	–
	„ Balance . .	1,115	12	11		„ Interest . .	81	13	11
		1,715	12	11			1,715	12	11
4	„ Cash . .	600	–	–	4	„ Balance . .	1,115	12	11
	„ Balance . .	571	8	7		„ Interest . .	55	15	8
		1,171	8	7			1,171	8	7
5	„ Cash . .	600	–	–	5	„ Balance . .	571	8	7
						„ Interest . .	28	11	5
		600	–	–			600	–	–

of payment has elapsed, the Interest Suspense Account will be entirely extinguished.

The Journal entry will be:—

Year.								
1	Wagon A/c	2,597	13	9				
	Interest Suspense A/c . .	402	6	3				
	To Wagon Company .				3,000	–	–	
	for wagons purchased on the instalment-payment system.							

The Wagon Account will appear as in the previous example: the account of the Wagon Company and the Interest Suspense Account will be as shown below.

Dr. WAGON COMPANY. *Cr.*

Year.					Year.				
1	To Cash . . .	600	–	–	1	By Sundries . . .	3,000	–	–
	„ Balance c/d . .	2,400	–	–					
		3,000	–	–			3,000	–	–
2	To Cash . . .	600	–	–	2	By Balance b/d . .	2,400	–	–
	„ Balance c/d . .	1,800	–	–					
		2,400	–	–			2,400	–	–
3	To Cash . . .	600	–	–	3	By Balance b/d . .	1,800	–	–
	„ Balance c/d . .	1,200	–	–					
		1,800	–	–			1,800	–	–
4	To Cash . . .	600	–	–	4	By Balance b/d . .	1,200	–	–
	„ Balance c/d . .	600	–	–					
		1,200	–	–			1,200	–	–
5	To Cash . . .	600	–	–	5	By Balance b/d . .	600	–	–

Dr. INTEREST SUSPENSE ACCOUNT. *Cr.*

Year.					Year.				
1	To Wagon Co. . . .	402	6	3	1	By Profit and Loss . .	129	17	8
						„ Balance c/d . .	272	8	7
		402	6	3			402	6	3
2	To Balance b/d . .	272	8	7	2	By Profit and Loss . .	106	7	7
						„ Balance c/d . .	166	1	–
		272	8	7			272	8	7
3	To Balance b/d . .	166	1	–	3	By Profit and Loss . .	81	13	11
						„ Balance c/d . .	84	7	1
		166	1	–			166	1	–
4	To Balance b/d . .	84	7	1	4	By Profit and Loss . .	55	15	8
						„ Balance c/d . .	28	11	5
		84	7	1			84	7	1
5	To Balance b/d . .	28	11	5	5	By Profit and Loss . .	28	11	5

First Method.

Entries in the Vendor's Books.—A Journal entry will be made, debiting the purchaser and crediting the Sales Account with the *cash value* of the goods. Periodically, as arranged, the purchaser will be debited with interest on the balance outstanding, the amount of the interest being credited to Interest Account. Cash will be debited with the instalment when received, and the amount will be passed to the credit of the purchaser.

Example.—A Colliery Company purchases on the instalment-payment plan a number of Coal Wagons, to be paid for by five annual instalments of £600 each. The cash value of the Wagons is £2,597 13s. 9d., and the Wagon Company charge interest at 5 per cent. per annum on yearly rests. Write up the purchaser's account in the books of the Vendor.

LEDGER

Dr. COLLIERY COMPANY. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Sundries	2,597	13	9	1	By Cash	600	–	–
	„ Interest	129	17	8		„ Balance c/d	2,127	11	5
		2,727	11	5			2,727	11	5
2	„ Balance b/d	2,127	11	5	2	„ Cash	600	–	–
	„ Interest	106	7	7		„ Balance c/d	1,633	19	–
		2,233	19	–			2,233	19	–
3	„ Balance b/d	1,633	19	–	3	„ Cash	600	–	–
	„ Interest	81	13	11		„ Balance c/d	1,115	12	11
		1,715	12	11			1,715	12	11
4	„ Balance b/d	1,115	12	11	4	„ Cash	600	–	–
	„ Interest	55	15	8		„ Balance c/d	571	8	7
		1,171	8	7			1,171	8	7
5	„ Balance b/d	571	8	7	5	„ Cash	600	–	–
	„ Interest	28	11	5					
		600	–	–			600	–	–

Alternative Method.

Entries in the Vendor's Books.—The goods will be entered at their *cash value* into a special Journal, the amount being credited to Sales Account, and the Interest credited to an Interest Suspense Account. The total of both goods and interest is debited to the account of the purchaser. As each instalment is received, it will be debited in the Cash Book and credited to the Purchaser's Account. At balancing time a portion of the Interest Suspense Account will be transferred to Profit and Loss Account as a realised gain. At the end of the period of payment, the Interest Suspense Account will be entirely extinguished.

The Journal entry would be :—

JOURNAL.		Dr.			Cr.		
Year. 1	Colliery Co.	3,000	–	–			
	To Sales A/c . . .				2,597	13	9
	,, Interest Suspense A/c .				402	6	3
	for wagons sold on the instalment payment system.						

The Purchaser's Account and the Interest Suspense Account are appended.

LEDGER

Dr.	COLLIERY COMPANY.					Cr.		
Year.					Year.				
1	To Sundries . . .	3,000	–	–	1	By Cash . . .	600	–	–
						,, Balance c/d . .	2,400	–	–
		3,000	–	–			3,000	–	–
2	To Balance b/d . .	2,400	–	–	2	By Cash . . .	600	–	–
						,, Balance c/d . .	1,800	–	–
		2,400	–	–			2,400	–	–
3	To Balance b/d . .	1,800	–	–	3	By Cash . . .	600	–	–
						,, Balance c/d . .	1,200	–	–
		1,800	–	–			1,800	–	–
4	To Balance b/d . .	1,200	–	–	4	By Cash . . .	600	–	–
						,, Balance c/d . .	600	–	–
		1,200	–	–			1,200	–	–
5	To Balance b/d . .	600	–	–	5	By Cash . . .	600	–	–

Dr.	INTEREST SUSPENSE ACCOUNT.					Cr.			
Year.					Year.				
1	To Profit and Loss . .	129	17	8	1	By Colliery Co. . .	402	6	3
	,, Balance c/d . .	272	8	7					
		402	6	3			402	6	3
2	To Profit and Loss . .	106	7	7	2	By Balance b/d . .	272	8	7
	,, Balance c/d . .	166	1	–					
		272	8	7			272	8	7
3	To Profit and Loss . .	81	13	11	3	By Balance b/d . .	166	1	–
	,, Balance c/d . .	84	7	1					
		166	1	–			166	1	–
4	To Profit and Loss . .	55	15	8	4	By Balance b/d . .	84	7	1
	,, Balance c/d . .	28	11	5					
		84	7	1			84	7	1
5	To Profit and Loss . .	28	11	5	5	By Balance b/d . .	28	11	5

ROYALTIES

Definition.—A mineral royalty is a charge of so much per ton on every ton of ore or mineral obtained from a colliery, mine, quarry, pit, etc.

Minimum Rent.—This is the annual rent that must be paid by the lessee to the lessor. A royalty being a payment based on the tonnage raised, it follows that if in any year no minerals were raised, the lessor would receive no payment. To guard against this lack of income owing to a small output, or no output, the lessor arranges that a minimum rent shall be paid whether covered by royalties or not. In order to secure for himself a a larger income in times of increased output, he also arranges that the minimum rent shall merge into a royalty of a fixed amount per ton. The sum payable in each year is, therefore, always the *greater* amount, royalties or minimum rent, as the case may be (after the working off of unworked dead rent or short workings). Various other terms are commonly used for minimum rent, viz., head rent, sleeping rent, fixed rent, dead rent, annual rent, certain rent, etc.

Surface Rent.—Some mineral leases contain a clause stipulating for the payment of a fixed yearly or half-yearly sum as surface or ground rent, in addition to the minimum rent and royalty.

Acreage, Footage, Tentail.—Royalties are not always based on the *tonnage* raised. "Acreage" is a fixed price per *acre* of the coal field worked. "Footage" is a fixed price per *cubic foot* of coal extracted. "Tentail" is another term for acreage or royalty rent.

Short Workings.—When the royalty on the actual output amounts to less than the minimum rent, the deficiency is called the Short Workings or Shorts. Leases of mineral areas generally contain a clause giving the lessee power to recoup Short Workings out of future royalties that exceed the minimum rent; hence the use of the term Redeemable Dead Rent to denote the deficiency recoverable out of future excess royalties. The right of recoupment is sometimes limited to a certain number of years, and sometimes extends over the whole period of the lease. Other common terms for Short Workings or Redeemable Dead Rent are Overpaid Royalties, Royalties Paid in Advance, and Royalties in Suspense.

Deduction of Income Tax.—The amounts payable to the lessor in respect of royalties, minimum rent, or surface rent are subject to deduction of income tax at the current rate for unearned income.

Treatment of Short Workings.—Where there is a right to recoup Short Workings, the Trading (or Working) Account is debited only with the royalty on the actual output, and the balance of the minimum rent paid is treated as a temporary asset, appearing as such on the Balance Sheet. Where there is no power of

recoupment, the Trading (or Working) Account is charged with the full minimum rent. When the period of recoupment has expired, any balance at the debit of Short Workings Account will be an actual loss, and must, therefore, be transferred to Profit and Loss Account.

Methods of Dealing in the Books with Royalties and Minimum Rent.—From the point of view of accounting, there are two principal methods in vogue, and the following are the respective formulas for the two methods:—

First Method :—

(*a*) When the Minimum Rent is greater than the Royalties:—

(1) *Debit* Royalties Account with the Royalty on the actual output;

(2) *Debit* the difference (*i.e.*, the Short Workings) to a Redeemable Dead Rent Account;

(3) *Credit* Landlord's Account with the Minimum Rent.

(*b*) When the Minimum Rent is less than the Royalties:—

(1) *Debit* Royalties Account with the Royalty on the actual output;

(2) *Credit* Landlord's Account with the Minimum Rent;

(3) *Credit* Redeemable Dead Rent Account with the balance.

If there are no Short Workings to recoup, the Landlord's Account must be *credited* with the whole of the Royalties. Where the excess Royalties are more than sufficient to recoup the Short Workings, the balance of Royalties must be *credited* to the Landlord's Account, in addition to the Minimum Rent.

Second Method :—

(*a*) When the Minimum or Dead Rent is greater than the Royalties:—

(1) *Debit* Dead Rent Account and *credit* Landlord's Account with the Minimum Rent;

(2) *Debit* Royalties Account and *credit* Dead Rent Account with the Royalty on the actual output;

(3) *Debit* Short Workings Account and *credit* Dead Rent Account with the balance of the Dead Rent.

(*b*) When the Minimum or Dead Rent is less than the Royalties:—

(1) *Debit* Royalties Account (not opening a Dead Rent Account at all); *credit* Short Workings Account with any Short Workings recouped, and *credit* Landlord's Account with the balance.

Example.—A Colliery Company acquires the Lease of a coal mine for thirty years at a Minimum Rent of £500 per annum, merging into a Royalty of 6d. per ton. The right of recouping

Short Workings is restricted to the end of each period of three years. The annual output was as follows: 1st year, 9,000 tons; 2nd year, 16,000 tons; 3rd year, 30,000 tons. Make the necessary entries in the Journal, and show also the respective Ledger Accounts.

Note.—Income Tax would have to be deducted from the Royalty paid, but to avoid complications the full amount has been debited to the Landlord as Cash.

First Method:—

JOURNAL.

Year.		Dr.			Cr.		
1	Royalties	225	–	–			
	6d. per ton on 9,000 tons raised.						
	Redeemable Dead Rent . .	275	–	–			
	To Landlord				500	–	–
2	Royalties	400	–	–			
	6d. per ton on 16,000 tons raised.						
	Redeemable Dead Rent . .	100	–	–			
	To Landlord . . .				500	–	–
3	Royalties	750	–	–			
	6d. per ton on 30,000 tons raised.						
	To Landlord. . . .				500	–	–
	„ Redeemable Dead Rent .				250	–	–

LEDGER

Dr. ROYALTIES. Cr.

Year.					Year.				
1	To Landlord . . .	225	–	–	1	By Trading A/c . .	225	–	–
2	To Landlord . . .	400	–	–	2	By Trading A/c . .	400	–	–
3	To Landlord . . .	500	–	–	3	By Trading A/c . .	750	–	–
	„ Redeemable Dead Rent	250	–	–					
		750	–	–			750	–	–

Dr. REDEEMABLE DEAD RENT. Cr.

Year.					Year.				
1	To Landlord . . .	275	–	–	1	By Amount c/d . .	275	–	–
2	To Amount b/d . .	275	–	–	2	By Amount c/d . .	375	–	–
	„ Landlord . .	100	–	–					
		375	–	–			375	–	–
3	To Amount b/d . .	375	–	–	3	By Royalties . . .	250	–	–
						„ Profit and Loss (amount unredeemed) .	125	–	–
		375	–	–			375	–	–

Dr. LANDLORD. *Cr.*

Year.			Year.		
1	To Cash	500 – –	1	By Royalties	225 – –
				„ Redeemable Dead Rent	275 – –
		500 – –			500 – –
2	To Cash	500 – –	2	By Royalties	400 – –
				„ Redeemable Dead Rent	100 – –
		500 – –			500 – –
3	To Cash	500 – –	3	By Royalties	500 – –
		500 – –			500 – –

Second Method :—

	JOURNAL.	*Dr.*			*Cr.*		
Year.							
1	Dead Rent To Landlord for minimum rent.	500	–	–	500	–	–
	Royalties To Dead Rent 6d. per ton on 9,000 tons raised.	225	–	–	225	–	–
	Short Workings To Dead Rent transfer of balance.	275	–	–	275	–	–
2	Dead Rent To Landlord for minimum rent.	500	–	–	500	–	–
	Royalties To Dead Rent 6d. per ton on 16,000 tons raised.	400	–	–	400	–	–
	Short Workings To Dead Rent transfer of balance.	100	–	–	100	–	–
3	Royalties 6d. per ton on 30,000 tons raised. To Landlord To Short Workings amount recouped out of excess royalties.	750	–	–	500 250	– –	– –

LEDGER

Dr. DEAD RENT. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Landlord	500	–	–	1	By Royalties	225	–	–
						„ Short Workings	275	–	–
		500	–	–			500	–	–
2	To Landlord	500	–	–	2	By Royalties	400	–	–
						„ Short Workings	100	–	–
		500	–	–			500	–	–

Dr. ROYALTIES. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Dead Rent	225	–	–	1	By Trading A/c	225	–	–
2	To Dead Rent	400	–	–	2	By Trading A/c	400	–	–
3	To Sundries	750	–	–	3	By Trading A/c	750	–	–

Dr. SHORT WORKINGS. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Dead Rent	275	–	–	1	By Amount c/d	275	–	–
2	To Amount b/d	275	–	–	2	By Amount c/d	375	–	–
	„ Dead Rent	100	–	–					
		375	–	–			375	–	–
3	To Amount b/d	375	–	–	3	By Royalty	250	–	–
						„ Profit and Loss (amount unrecouped)	125	–	–
		375	–	–			375	–	–

Dr. LANDLORD. *Cr.*

Year.		£	s.	d.	Year.		£	s.	d.
1	To Cash	500	–	–	1	By Dead Rent	500	–	–
		500	–	–			500	–	–
2	To Cash	500	–	–	2	By Dead Rent	500	–	–
		500	–	–			500	–	–
3	To Cash	500	–	–	3	By Royalties	500	–	–
		500	–	–			500	–	–

INVESTMENT ACCOUNTS

Special Ruling.—Investment Accounts are usually ruled with three columns on each side, so that the nominal value of the investment, the principal or capital value, and the periodical interest or dividends may be seen at a glance. Where the interest or dividend is payable at fixed dates, such dates are recorded at the head of the Investment Account.

Entries in the Accounts.—When the investment is purchased, the nominal value will be entered in the Nominal Value column and the actual cost in the Capital column. As the dividend or interest is received, the cash will be debited in the Cash Book and posted to the credit of the Income column of the Investment Account. At balancing time, the total receipts from each investment will be transferred to a Dividends and Interest Account and finally to Profit and Loss. Where fixed dividends have accrued, but have not been actually received, the amount should at balancing time be entered in the Interest or Dividends column and brought down as a debit balance in the same column.

Example 1.—P. Ruthven holds £6,000 worth of 2½ per cent. Consols, which cost him, including brokerage and expenses, £4,768 14s. 4d. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October. (*See* page 893.)

Purchase of Investments.—When investments are purchased *cum div.*—and the price is always ***cum div.***, unless otherwise stated—it will be necessary to ascertain the amount of the accrued dividend, less tax, and to enter it in the Interest or Dividends column of the Investment Account. The balance of the purchase price will represent the capital cost to be entered in the Capital or Principal column. When the dividend or interest on the investment is received, it will be credited in the Interest or Dividend column. The offset on the debit side of the same column will have the effect of reducing the dividend to the amount receivable for the time the investment has been held. When stocks, shares, etc., are purchased *cum div.*, such an adjustment should always be made in private accounts. It would not be proper to show an investment as earning six months' income, if we had held the investment for only *two* months.

Sale of Investments.—When investments are sold *cum div.*—and the price is always *cum div.*, unless otherwise stated—it will likewise be necessary to ascertain the amount of the accrued dividend, up to date of sale, less tax and to enter it in the Interest or Dividends column. Such an adjustment must be made, because the purchase-price will include the accruing dividend. The balance of the money received, after deducting the accrued dividend or interest, will represent the capital amount to be entered in the Capital or Principal column.

Profit or Loss on Sale of Investments.—When the whole of an investment is sold, the difference of the Capital columns will represent profit or loss on such sale. When only part of an investment is sold, the balance of the holding should be brought down *at cost.* Any difference between the Capital columns will denote profit or loss on the sale. This profit or loss is transferred to a separate

2½% CONSOLS

Dr. Dividends payable on 5th Jan., 5th April, 5th July, and 5th Oct. *Cr.*

Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.	Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.
19—					19—				
Jan. 1	To Balance . . .	6,000 – –	31 5 8	4,768 14 4	Jan. 5	By Cash— Quarter's Dividend to date £37 10 0			
Dec. 31	„ Transfer to Dividends and Interest Account .		131 5 –			*Less* tax at 2s. 6d. 4 13 9			
								32 16 3	
					Apr. 5	By Cash (ditto) . .		32 16 3	
					July 5	„ „ „ . .		32 16 3	
					Oct. 5	„ „ „ . .		32 16 3	
					Dec. 31	„ Balance c/d . .	6,000 0 0	31 5 8	4,768 14 4
		6,000 – –	162 10 8	4,768 14 4			6,000 0 0	162 10 8	4,768 14 4
19—									
Jan. 1	To Balance b/d . . .	6,000 – –	31 5 8	4,768 14 4					

Note.—The accruing Dividend at the commencement of the year is obtained by taking $\frac{87}{365}$ of £131 5s., the yearly dividend less tax at 2s. 6d. Some accountants prefer to take $\frac{87}{92}$ of the quarterly dividend less tax. It makes no difference to the yearly income from the Investment, as the same amount has to be carried forward again at the end of the year.

* *This rate of tax is used for convenience only.*

account entitled Profit (or Loss) on Sale of Investments. Although of a *capital* nature, it is usually closed at balancing time by transfer to Revenue or Profit and Loss Account.

Balancing Investment Accounts.—When the Investment Account is balanced at the end of each year, the balance should be brought down *at cost* (including brokerage and expenses). Where the market value of the investments on the date of balancing is above cost, no credit should be taken for the enhanced price; but where the market value is below cost, a reserve for depreciation should be made. Temporary market fluctuations are ignored, but permanent depreciation should be written off. Where, at balancing times, investments have been valued at cost, the market price of such investments should be stated as a foot-note on the Balance Sheet, so that there may be no concealment of facts.

Example 2.—A Company purchased on the 1st February £10,000 of 4 per cent. Stock inscribed at the Bank of England, at 95, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and Expenses amounted to £4 5s., and Brokerage of $\frac{1}{8}$ per cent. was charged. On 1st May £3,000 worth of Stock was sold for cash at 97, less Brokerage $\frac{1}{8}$ per cent. and Expenses £1 6s. On 31st August £2,000 worth of Stock was sold for cash at 96 ex div., less Brokerage $\frac{1}{8}$ per cent. and Expenses 19s. The market price on 31st December, the date of the annual balancing, was 94. Show the Ledger Account of the investment, recording the above transactions and the receipt of the quarterly dividends, and balance it as at 31st December. (*See* page 895.)

STOCK EXCHANGE TRANSACTIONS

We have just dealt with one side of these transactions, namely, the client's side, under Investment Accounts. We will now, by means of an illustration, show the accounts in the stockbroker's books.

Example.—Thomas Oliver had the undermentioned transactions with his broker on the London Stock Exchange:—

On 5th Aug. he purchased £8,000 Victoria 4% Inscribed Stock at 102⅝, and £12,000 Natal 4½% Inscribed Stock at 115¼. On 8th Aug. he purchased £10,000 New Zealand 3½% Guaranteed Stock at 106¾. On these transactions the broker charged a commission of ¼%.

On 16th Aug. he sold the £10,000 New Zealand Stock at 108⅛, and the £8,000 Victoria Stock at 104¼. The £12,000 Natal Stock was carried forward at 116 contango being charged at ⅛%.

Show T. Oliver's Account in the broker's Ledger, ignoring contract stamps.

4% INSCRIBED STOCK.

Dr. Dividends payable on 31st March, 30th June, 30th Sept., and 31st Dec. *Cr.*

Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.	Date.	Particulars.	Nominal Value.	Dividends or Interest.	Capital or Principal.
19—					19—				
Feb. 1	To Cash— Purchase of £10,000 Stock at 95 cum div. plus Brokerage ¼% and stamps and expenses £4 5s.	10,000 – –	29 3 4	9,487 11 8	Mar. 31	By Cash— Quarter's Dividend on £10,000 £100 – – †*Less* Tax @ 2/6 12 10 –		87 10 –	
Dec. 31	To Transfer to Profit on Sale of Investments Account			74 15 10	May 1	By Cash— Sale of £3,000 at 97 cum. div. *less* Brokerage ¼% and Expenses £1 6s.	3,000 – –	8 15 –	2,896 4
31	To Transfer to Dividends and Interest A/c		227 10 –		June 30	By Cash— Quarter's Dividend on £7,000 £70 – – †*Less* Tax @ 2/6 8 15 –		61 5 –	
					Aug. 31	By Cash— Sale of £2,000 at 96 ex-div., less Brokerage ¼%, and Stamps and Expenses 19s.	2,000 – –		1,916 11 –
					Sept. 30	By Cash— Quarter's Dividend on £7,000 £70 – – †*Less* Tax @ 2/6 8 15 –			
								61 5 –		
								55 8 4	5 16 8*
					Dec. 31	By Cash— Quarter's Dividend on £5,000 £50 – – †*Less* Tax @ 2/6 6 5 –			
								43 15 –	
					31	By Balance (at cost) c/d	5,000 – –		4,743 15 10
		10,000 – –	256 13 4	9,562 7 6			10,000 – –	256 13 4	9,562 7 6
19— Jan. 1	To Balance b/d	5,000 – –		4,743 15 10					

* £2,000 Stock was in hand only 2 months ; therefore 1 month's dividend on £2,000 must be credited to Capital.

† *This rate of tax has been used for convenience only.*

Dr. THOMAS OLIVER. *Cr.*

19—				19—			
Aug. 5	To £8,000 Victoria Stock @ 102½	8,210	–	Aug. 16	By £10,000 New Zealand Stock @ 108½	10,812	10
	„ Commission	10	–		„ £8,000 Victoria Stock @ 104½	8,340	–
	„ £12,000 Natal Stock @ 115½	13,830	–		„ Balance c/d— £12,000 Natal Stock @116	13,920	–
	„ Commission	15	–				
8	„ £10,000 New Zealand Stock @ 106¾	10,675	–				
	„ Commission	12	10				
16	„ Cash	320	–				
		33,072	10			33,072	10
Aug. 17	To Balance b/d— £12,000 Natal Stock @ 116	13,920	–				
	„ Contango	15	–				

Note 1.—Brokerage or Commission is usually charged on the *nominal* value of the Stock bought or sold.

Note 2.—When Stocks are bought and sold again in the same period of account, commission is charged only *once*.

Note 3.—Some brokers include the contango commission in the old period of account. Thus, in this case, the cash remitted to T. Oliver would have been £305 instead of £320.

TABULAR SYSTEM OF BOOK-KEEPING

Characteristics of System.—The Tabular or Columnar System is a method of book-keeping in which items are subjected to continuous analysis or classification, thereby saving the trouble of periodical dissection and summarising. A "total" column should always be provided, so that the arithmetical accuracy of the analysis can be verified by means of cross-casting.

Advantages.—The advantages of the system are that it is simple in application, and can be adapted to almost any book, whether a book of account or a statistical book. It economises time and saves labour. Tabulated details are often of great importance, and serve many useful purposes in modern business, affording data for comparison, estimating, etc., besides furnishing additional information.

Disadvantages.—The disadvantages sometimes urged against the tabular system are that the books required to carry it out are often of unwieldy dimensions; that it is liable to error, as items may easily be analysed into wrong columns and thus vitiate the whole of the results.

Tabular Books of Account.—Examples of tabular subsidiary books will be found in Departmental Purchases and Sales Books, in the Journal, Cash Book, Petty Cash Book, and Purchases Book shown in the working of the exercise on Self-Balancing Ledgers; in the Hotel Cash Book and Invoice Book on page 898; in the Trustee-in-Bankruptcy's Cash Book. Examples of tabular Ledger Accounts are given in the sections dealing with Departmental

Accounts, Branch Accounts, and Investment Accounts. Examples of tabular Ledgers will be found in the sections on Cost Ledger, Stores Ledger, Share Ledger, Bills Receivable and Payable Ledgers, and in the section on Hotel Visitors' Ledger on pages 900 and 901; the Consumers' Ledger, and the Rental Register, shown on page 899.

Tabular Statistical Books.—Examples of these are seen in the Application, Allotment, and Call Books, in the Register of Transfers, etc., of a Joint Stock Company; in the Policy Registers of an Insurance Company; in Cost Accounts in the Wages Analysis Book, the Allocation of Stores Issued Book, Stores Received and Stores Issued Books, etc.; in the Register of Investments of an Investment Company, etc.

QUESTIONS ON CHAPTER XXII

1. Define Single Entry. Is pure single entry ever found in business? State briefly the disadvantages of single entry.
2. How is profit or loss ascertained under single entry?
3. How would you convert a set of books from single entry to double entry?
4. What are Hire-Purchase Accounts? Explain the entries to be made (*a*) in the buyer's books, (*b*) in the seller's books. How is depreciation dealt with? What other method is there of dealing with Hire-Purchase Accounts?
5. What are Instalment-Payment Purchases? How do they differ from Hire-Purchases? What entries are necessary (*a*) in the buyer's books, (*b*) in the seller's books?
6. What is meant by a Royalty? Explain the terms Minimum Rent, Short Workings, Surface Rent, Acreage, Footage, Tentail, Dead Rent, Redeemable Dead Rent.
7. How are Short Workings treated in the books of account?
8. What two methods are there of dealing with Royalties in the books of account?
9. What are Investment Accounts? What special ruling is required? Explain the meaning of the terms *cum div.* and *ex div.*, and their effect on the Investment Account. How are Investment Accounts balanced?
10. What is the Tabular or Columnar System? What are its advantages and disadvantages?

EXERCISE XXII

1. Set out below is a Statement prepared by Mr. J. Brown, a cigarette manufacturer, claiming to show the result of his year's trading. Do you approve of the Statement? Give brief reasons in support of your views.

31st December, 19—

To Capital	£2,659	By Plant and Machinery	£5,059
„ Sundry Creditors	9,850	„ Furniture and Fittings	187
„ Loan	2,000	„ Goodwill	1,500
„ Bank Overdraft	2,000	„ Stock	6,451
„ Balance, being profit for the year	1,591	„ Sundry Debtors	4,484
		„ Cash in hand	19
		„ J. Brown, Private Drawings	400
	£18,100		£18,100

—(*London Chamber of Commerce.*)

(*Continued on page* 902.)

TABULAR INVOICE BOOK FOR HOTEL

Date.	Name.	Led. Fol.	Total.	Provisions.	Groceries.	Ale, Beer, and Minerals.	Wines, Spirits, and Liqueurs.	Cigars, Cigarettes, and Tobacco.	Furniture, Fixtures, and Fittings.	House, Bed, and Table Linen.	Cutlery, Glass, and Plate.	Sundries.

TABULAR CASH BOOK FOR HOTEL.

Dr. *Cr.*

Date.	Visitors' Payments.	Bar and Billiard Room Receipts.	Date.	Particulars.	Led. Fol.	Total.	Ale, Beer, and Minerals.	Wines, Spirits, and Liqueurs.	Cigars, Cigarettes, and Tobacco.	Grocery and Provisions.	Paid Out on a/c of Visitors.	Wages.	Petty Expenses.

CONSUMERS' LEDGER

No. of Assessment.	Street and Number.	Rateable Value.	Arrears brought forward. Dr.	Half-Year's Charges. Dr.	Extras. Dr.	Total Amount due. Dr.	Folio.	Cash Received. Cr.	Folio.	Allowances. Cr.	Total Cash and Allowances. Cr.	Arrears carried forward. Dr.
		£										
101	Winton Street 1 . .	25	10 –	1 5 –	5 –	2 – –	71	2 – –			2 – –	
102	Do. 2 . .	25		1 5 –		1 5 –	72	1 3 –	49	2 –	1 5 –	
103	Do. 3 . .	30		1 10 –	5 –	1 15 –	73	1 10 –			1 10 –	5 –

The above form of Ledger is suitable for a Gas, Water, or Electric Light Company.

RENTAL REGISTER

Situation of Property.	Annual Rental. Dr.	Arrears brought forward.	Quarter ending March.	Quarter or Half-Year ending June.	Quarter ending Sept.	Quarter or Half-Year ending Dec.	Total Cash Received. Cr.	Allowances. Property Tax. Cr.	Allowances. Repairs. Cr.	Arrears carried forward. Dr.

VISITORS'

MONDAY, 6TH

DEBITS.	1			Mrs. Johnson. 2			Mr. Stone. 3			Mrs. Andrew. 4		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Bal. bt. Forward												
Apartments ..					5			6			10	6
Attendance ..					2			2			2	
Baths ..								1				
Fire and Lights												
Boarders ..								2	6		1	6
Breakfasts ..					3			2			2	
Luncheons ..					1	6		2			4	6
Dinners ..								5	6			
Dessert and Ices												
Sandwiches ..					1	6					1	
Tea and Coffee												
Soups												
Suppers ..											8	
Servants' Board												
Wine								3				
Spirits ..								1				
Ales, Stout, etc.												6
Minerals ..									6			
Cigars												
Stationery ..												
Newspapers ..												
Postage ..												
Paid Out ..												
Washing ..												
Carriage ..												
Billiards ..												
TOTAL					13		1	3	6	1	10	
CREDITS.												
Overcharges ..												
Cash Received												
Ledger a/c ..												
Bal. car. Forward					13		1	3	6	1	10	
TOTAL					13		1	3	6	1	10	
Folio Ledger a/c Transferred to												

LEDGER.

JUNE, 19..

5			DEBITS.	Daily Total.			Bt. Forward.			Cd. Forward.		
£	s.	d.		£	s.	d.	£	s.	d.	£	s.	d.
			Bal. bt. Forward									
			Apartments ..	1	1	6				1	1	6
			Attendance ..		6						6	
			Baths		1						1	
			Fire and Lights									
			Boarders ..									
			Breakfasts ..		7						7	
			Luncheons		5	6					5	6
			Dinners ..		10						10	
			Dessert and Ices									
			Sandwiches ..									
			Tea and Coffee		2	6					2	6
			Soups ..									
			Suppers ..									
			Servants' Board		8						8	
			Wine ..		3						3	
			Spirits ..		1						1	
			Ales, Stout, etc.			6						6
			Minerals ..			6						6
			Cigars ..									
			Stationery ..									
			Newspapers									
			Postage ..									
			Paid Out ..									
			Washing ..									
			Carriage ..									
			Billiards ..									
			TOTAL	3	6	6				3	6	6
			CREDITS									
			Overcharges ..									
			Cash received ..									
			Ledger a/c ..									
			Bal. car. Forward	3	6	6				3	6	6
			TOTAL	3	6	6				3	6	6
			Folio Ledger a/c Transferred to									

2. Describe the steps you would take in order to prepare a Trading Account, Profit and Loss Account, and Balance Sheet from a set of books which had been kept upon the Single Entry system.—(*London Chamber of Commerce.*)

3. F. Wood keeps his books on the Single Entry system, and, from them and particulars supplied, the following figures were gathered together on the 30th of June last:—

Book Debts, £5,000; Cash in hand, £10; Stock-in-Trade (estimated), £3,000; Furniture and Fittings, £600; Trade Creditors, £2,000; Bank overdraft, £990.

Wood stated that he started business on the 1st of July with Cash £3,000 paid into bank, and Stock valued at £2,000. During the year he estimated his Drawings to be £1,200.

(1) You are required to prepare a Statement showing profit for the year, after writing off 10% for Depreciation on Furniture and Fittings.

(2) What Journal Entries will start the books on a Double Entry system with the above figures?—(*Civil Service: Customs and Excise.*)

4. Describe briefly how you would convert a set of books, which had been kept on Single Entry methods, into the Double Entry system.—(*Royal Society of Arts.*)

5. Robert Webber keeps his books by the Single Entry method. His financial position on 1st January was as follows:—

	£	s.	d.		£	s.	d.
Cash in hand . .	12	10	–	Sundry Debtors .	421	10	–
Stock-in-Trade . .	642	15	–	Machinery and Plant.	981	–	–
Fixtures and Fittings	89	–	–	Sundry Creditors .	1,209	15	–
Cash at Bank . .	153	–	–				

During the year, Robert Webber withdrew from the business, for private purposes, the sum of £480.

On 31st December, Webber's financial position was as follows:—

Machinery and Plant, £1,350 10s.; Fixtures and Fittings, £80 10s.; Sundry Debtors, £732; Stock-in-Trade, £950 10s.; Cash in hand, £15; Bank overdraft, £500; Sundry Creditors, £1,400 10s.

From the above particulars, prepare a Statement showing the profit made by Webber for the year ended 31st December. When preparing this statement, no depreciation need be written off any of the assets, and no provision for Bad and Doubtful Debts is necessary.—(*London Chamber of Commerce.*)

6. A keeps his books by Single Entry. On 1st January his Capital was £6,900. An analysis of his cash book for the year gives the following particulars:—

DEBIT SIDE

Received from Sundry Debtors	£6,000
Paid in on Capital Account	500

CREDIT SIDE

Due to Bank, 1st January	740
Payments to Sundry Creditors	2,500
General Expenses of Business	1,000
Wages	1,550
Drawings	300
Balance at Bank, 31st December. . . .	400
„ in hand.	10

Debtors at 1st January were	£5,300,	and at 31st December were		£8,800
Creditors	do. £1,500	do.	do.	£1,950
Stock	do. £1,700	do.	do.	£1,900
Plant and Machinery	do. £2,000	do.	do.	£2,000
Furniture and Fittings	do. £140	do.	do.	£140

From the above material, prepare a Profit and Loss Account for the year ended 31st December, and a Balance Sheet at that date, after providing 5% Interest on Capital (ignoring payments in and drawings), 10% Depreciation on Plant, 5% Depreciation on Furniture, and a Reserve of 5% on Sundry Debtors.—(*Chartered Accountants.*)

7. The Hard Coal Colliery Co., Ltd., agreed to purchase from the International Wagon Co., Ltd., 100 railway wagons, at the price of £50 per wagon, paying for the same by half-yearly instalments of £300, such instalments to include interest on the unpaid purchase money at the rate of 7% per annum.

The date of the purchase was 1st January, and the first half-yearly instalment was due 1st July.

Write up the Hard Coal Colliery Co.'s Account in the Wagon Co.'s books for three years, and also write up the Wagon Account in the Colliery Co.'s books for the same period.—(*Chartered Accountants.*)

8. On 1st March, the B. S. Coal Co. obtained wagons on the hire-purchase system. The price of the wagons was £1,150. Payment was to be made, as to £150 down and as to the balance at £200 per year with 5% interest.

The B. S. Coal Co. write off 10% depreciation each year.

Construct the necessary Ledger Accounts in the books of the Company, showing in detail the entries.—(*Incorporated Accountants.*)

9. A Gas Company deals in Stoves on the hire-purchase system. On 1st January A purchased a stove from the Company for 55s., to be paid by twelve equal quarterly instalments of 4s. 7d. each.

The stove cost the Gas Company 37s. 6d.

The four quarterly instalments payable in the first year were duly received by the Company.

How should these transactions appear in the Company's Ledger, so that the year is credited with its proper proportion of the profit earned? (The question of depreciation can be disregarded.)—(*Chartered Accountants.*)

10. A Colliery Co. purchases Wagons on the hire-purchase system over a period of five years, payable by annual instalments of £500. The Wagon Co. charge Interest at the rate of 5% per annum on the yearly balances. Show the accounts in the books of (*a*) the buyer (depreciation at 10% per annum), (*b*) the seller.

11. A Colliery Co. purchases on the instalment-payment system a number of Coal Wagons, to be paid for by five annual instalments of £500 each. The Wagon Co. charge Interest at 5% per annum on yearly rests. Write up the accounts in the books of (*a*) the purchaser (depreciation 10% per annum), (*b*) the vendor.

12. Explain briefly, by means of *pro formâ* examples, how Royalties and Short Workings, arising out of a mining lease, are dealt with in the books of the lessee of a colliery.—(*Royal Society of Arts, Accounting and Banking.*)

13. On the 1st January, Jas. Fincham became the lessee of a Chalk Pit on

the terms of paying a minimum or dead rental of £1,000 per annum, merging in a royalty of 4d. per ton. The output in the first year was 30,000 tons, in second year it was 40,000 tons, and in third year 70,000 tons. Show how you would deal with the Royalty and Rental in Fincham's books, the lease providing that dead rent not merged in royalty could be deducted out of future royalty in excess of the minimum, on the footing that Fincham would in the course of five years have increased the output to at least 300,000 tons. —(*Chartered Accountants.*)

14. A Colliery Co. acquires a lease of a mineral area for a term of sixty years at a minimum certain rent of £500 per annum, merging into a royalty of 6d. per ton on coal worked in periods, each of three years. Assuming the royalties on coal worked during the first year amounted to £100, in the second year £400, and in the third to £700 (leaving £300 of certain rent forfeited), make Journal and Cash Book entries, and post to Ledger Accounts on the basis of the first two years' rent having been paid at the end of each year, and the rent of the last year being unpaid, showing the amount chargeable to Profit and Loss in each year.—(*Chartered Accountants.*)

15. A colliery is worked under a lease granted by the Lord of the Manor, at a royalty of 6d. per ton, but with a minimum annual rent of £1,200, with power to recoup short workings. During the first year, 40,000 tons are raised; second year, 44,000 tons; third year, 52,000 tons; fourth year, 50,000 tons.

Make out Ledger Accounts for Royalties, Lord of the Manor, and Overpaid Royalties; and say how you would deal with the balance of Overpaid Royalties when making up the Annual Accounts.—(*National Union of Teachers.*)

16. The Coal Mine Co., Ltd., took a lease of a colliery from G. Risch for 99 years from 29th September, at a ground rent of £50 a year, payable half-yearly, and a royalty of 6d. per ton, with a minimum royalty of £80 a year, payable half-yearly. During the first year the Company raised 2,500 tons, and during the second year ended 29th September, 4,000 tons. The several amounts to G. Risch were paid 21 days after becoming due. Write up both Personal and Nominal Accounts, and balance them at the end of each year. —(*Chartered Accountants.*)

17. The George C. Waud Finance Corporation, Ltd., hold a large number of investments. Explain briefly what records you would advise the Company to keep relative to their investments. Give a *pro formâ* ruling of the Ledger Account you recommend, and enter therein not more than six items. —(*London Chamber of Commerce.*)

18. Show by Ledger entries *only* what the total amount of an Investment Account would be at the end of six years' Compound Interest (yearly) 2½% —neglect fractions of a penny. The amount invested *yearly* is £250.—(*National Union of Teachers.*)

19. Prepare the necessary accounts, relative to the undermentioned investment, which would appear in W. A. Richardson's Ledger:—

On 1st June, Richardson purchased £5,000 New Zealand 3% (1945) Stock at 85½ plus 2s. 6d.% brokerage and 45s. stamps, etc. On 3rd April, 2 years later, Richardson sold £4,000 of the Stock at 89, and paid £6 7s. expenses. Interest upon the stock is payable half-yearly on 1st April and 1st October, less tax (to be taken at 1s. 2d. in the £).—(*Royal Society of Arts.*)

20. Ulrich Brünner purchased, on 3rd August, £1,150 Canadian Western Railway Co. 5% Debenture Stock at 85½%, and paid £10 3s. for stamps, commission, etc. On 29th April next, Mr. Brünner sold the Stock at 88% and paid £11 1s. expenses. The debenture interest is payable half-yearly, on 1st April and 1st October, less tax (to be taken at 1s. 2d. in the £). Prepare the accounts, showing the history of this investment, as they should appear in Mr. U. Brünner's ledger.—(*London Chamber of Commerce.*)

21. Describe the best method of keeping the accounts relating to the investments of an individual or a firm, and record the following transactions in the books you would recommend :—

On 3rd May, Robert Rene bought £2,000 Arcadian Government 5% Bonds at 95 plus 2s. 6d. per cent. brokerage and 18s. stamps.

On 30th September of the following year he sold £1,000 of these Bonds at 98 less £3 10s. expenses. Interest on the Bonds is payable on 1st January and 1st July in each year.

Ignore all questions of Income Tax.—(*Royal Society of Arts, Accounting and Banking.*)

22. The following transactions A B had with his London broker, John Statham :—

On the 18th March he buys £15,000 New Zealand 3½% 1940 Stock at 106¾, £7,000 Victoria 4% 1881 Inscribed at 104⅜, and £5,000 Natal 4% Inscribed 1937 at 119¼. On these transactions the broker charges a commission of ⅛%.

On the 25th March he sells the New Zealand Stock at 107¼ and the Natal Stock at 120½, the Victoria Stock being carried forward, Contango being charged of one-eighth.

You are asked to show how these transactions would appear in John Statham's Ledger.—(*London Chamber of Commerce.*)

23. F. Reynolds holds £10,400 of 2½% Consols, which cost him, including brokerage and expenses, £8,333 2s. Show the Ledger Account of the investment for one year, dividends being payable on 5th January, 5th April, 5th July, and 5th October.

24. A Company purchased on 1st March £24,000 of 4% Blank Preference Stock at 90, dividends being payable on 31st March, 30th June, 30th September, and 31st December. Stamps and expenses amounted to £10 16s., and brokerage of ⅛% was charged. On 1st June, £6,000 of Stock was sold for cash at 92, less brokerage one-eighth and expenses £2 14s. On 1st September, another £6,000 of Stock was sold for cash at 91 *ex div.* less brokerage ⅛% and charges £2 14s. The market price on 31st December, the date of the annual Balance Sheet, was 89. Show the Ledger Account of the investment recording the above transactions and the receipt of the quarterly dividends, and balance it as on 31st December.

25. Philip Snowflake had the undermentioned transactions with his broker on the London Stock Exchange :—

On 16th July he bought £15,000 Mexican Ordinary at 46¾ ; on 21st July, £14,000 South-Eastern at 32⅛ ; on 23rd July, £16,000 North-Western at 69 7/16. On these transactions the broker charged a commission of ⅛%. On 24th July, Snowflake sold the South-Easterns at 34. On the 30th July, Snowflake carried forward the Mexican Ordinary and North-Westerns at 47 and 69 11/16 respectively, contango being charged at ⅛% on each stock.

Show Snowflake's account in the broker's Ledger.

26. Briefly explain the principles of the Columnar or Tabular system of book-keeping.

Illustrate the advantages of this system by means of *pro formâ* rulings of a Cash Book, or other book of first entry, suitable for use in a small hotel. —(*London Chamber of Commerce.*)

27. Prepare a form of a Columnar Ledger suitable for use in a small hotel, and enter the following details:—

Tuesday, 17th January: Visitors' accounts—J. Hughes (Room 1): Balance from previous day, £1 12s. 6d.; Apartments, 7s. 6d.; Breakfast, 2s. 6d.; Lunch, 3s. 6d.; Dinner, 5s.; Wine, 8s. 6d.; Spirits, 9d.; Cigars, 1s.; Postages, 6d.; Laundry, 3s. 4d. F. J. Griffiths (Room 5): Apartments, 5s.; Breakfast, 2s. 6d.; Tea, 1s. 6d.; Supper, 2s.; Liqueurs, 9d.; Minerals, 1s.; Bath, 1s.; Fire, 1s. J. E. Elliott (Room 3): Balance from previous day, £2 10s. 6d.; Breakfast, 2s. 6d.; 'bus to Station, 6d.; Cash received in settlement of bill, £2 13s. 6d.—(*London Chamber of Commerce.*)

28. Rule a form of Consumers' Ledger suitable for a Water, Gas, or Electric Light Co., and make therein six *pro formâ* entries, and explain the method of working.—(*Chartered Accountants.*)

29. Give the ruling of a Rates Ledger suitable for a Water Co. or municipal body, and illustrate its use by inserting a few items.—(*Chartered Accountants.*)

REVISION EXERCISE XXII

1. Explain what is meant by the following:—

(*a*) Reconciliation Statement.
(*b*) Lease Redemption Account.
(*c*) Deferred Shares.
(*d*) Rebate Account.
—(*National Union of Teachers.*)

2. In closing the books of a manufacturing firm, how would you arrive at the amount representing the value of "work in progress"? How would such an item be treated in the annual accounts?—(*Royal Society of Arts, Accounting and Banking.*)

3. What is a Cost Account? Give a specimen of a Cost Account suitable for use in some manufacturing business with which you are acquainted, giving both the ruling of such account, and also entering not less than six and not more than twelve items of cost relating to that particular manufacture. —(*Royal Society of Arts.*)

4. Upon being appointed book-keeper to The Whirlwind Automobile Co., Ltd., you find that 10 cars have been sent to various people for trial purposes, "on sale or return." These transactions, however, have been passed through the Company's books as actual sales at full list prices amounting in all to £5,750.

Is this correct? If not, what rectification of the accounts would be necessary? How should such transactions be treated in the Company's annual accounts as prepared for publication?—(*London Chamber of Commerce.*)

5. Is the Profit and Loss Account, as set out below, properly drawn up? If not, submit the account as you would present it.

PROFIT AND LOSS ACCOUNT, 31*st December*

To Salaries	£820	By Stock	£18,200
,, Depreciation	1,401	,, *Less* 1st January	17,400
,, Purchases	42,600		£800
,, Returns	362	,, Int. on Investments	3,400
,, Discounts	421	,, *Less* Loss on Sale of Investments	900
,, Dividend paid	3,842		2,500
,, Directors' Fees	1,000	,, Balance from last year's account	4,321
,, Trade Expenses	1,200	,, Sales	59,940
,, Dividend (5% for year)	6,200	,, Error in Books	120
,, Manufacturing Wages	3,280	,, Unclaimed Dividends	321
,, Transfer to Reserve A/c	4,000		
,, Balance carried to B/S	2,876		
	£68,002		£68,002

—(*Royal Society of Arts, Accounting and Banking*)

6. How would you deal with the undermentioned items when preparing the Annual Accounts of a Limited Company?

1. Transfer of £5,000 to Reserve Fund.
2. £750 Commission and Expenses incurred in the issue of £8,000 4% Debentures repayable in 8 years from the date of issue.
3. Transfer of £3,500 to the Company's own Marine Insurance Fund.
4. An issue of 100 5% Debentures of £100 each @ 95, repayable in 10 years from the date of issue at par.—(*London Chamber of Commerce.*)

7. Two branches of O'Conner & Co., Halifax, received all their goods at cost price from the Head Office. All Cash received is paid to Head Office daily. From the following particulars, prepare Profit and Loss Accounts of the Branches for the 12 months ended 31st December:—

	Alm Rd.	Beech Rd.
	£	£
Rent Account	220	300
Wages and Expenses	515	403
Stock, 1st January	550	840
,, at end of year	430	901
Goods from Head Office	9,170	5,050
Cash paid to Head Office	7,000	6,470
Goods returned to Head Office	5	10
Sundry Debtors, 1st January	215	107
,, ,, 31st December	195	93

—(*Civil Service, Customs and Excise*)

8. The Patent Rice Food Co., Ltd., was registered as a Private Company in December, 19—, with a nominal Capital of £32,000, divided into 30,000 Ordinary Shares of £1 each, and 200 Founders' Shares of £10 each. The latter shares were issued, as fully paid, to the inventor of the patent food, in consideration for the licence granted by him to the Company for the sole

right to manufacture under his patent. The inventor and his friends subscribed for, and were allotted, 20,204 Ordinary Shares, upon which 12s. 6d. per share was called up.

The Company started business on 1st January, and on 30th September an interim dividend of 4%, free of tax, was declared and paid on the paid-up portion of the Ordinary Shares.

On 31st December, the Ledger balances of the Company, in addition to those represented by the above transactions, were as follows:—

	£	s.	d.
Advertising	1,668	–	–
Bank Loan	2,000	–	–
Bills Payable	4,741	–	–
Calls in Arrear	2	10	–
Carriage	977	–	–
Cash at Bank	1,311	–	–
Sundry Debtors	3,592	–	–
Discount on Purchases (*less* Discount on Sales)	93	–	–
Electrical Power for Factory	151	–	–
Extension of Leasehold Premises	2,500	–	–
Interest on Bank Loan	65	–	–
Machinery Purchased	8,451	–	–
Office Furniture	219	–	–
„ Salaries	472	–	–
Preliminary Expenses	113	–	–
Purchases	5,816	–	–
Rent, Rates, Lighting, and Insurance	247	–	–
Sales	8,862	–	–
„ Returns	119	–	–
Stationery and Office Expenses	77	–	–
Sundry Trade Creditors	1,427	–	–
Travellers' Salaries and Expenses	1,166	–	–
Wages	2,299	–	–

The Stock-in-hand, as on 31st December, was valued and certified by the Managing Director at £3,075.

You are required to prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, and a Balance Sheet as on that date.

Before preparing these accounts, the following adjustments are necessary. (Give the Journal entries.)

(*a*) The Directors decided to write off Depreciation on the Machinery at the rate of 10% per annum for the 6 months during which the machines had been running.

(*b*) The Directors decided that, as the full benefit had not yet been derived from the expenditure upon Advertising and Travellers' Salaries and Expenses, the former item should be spread over 3 years (current year to bear a full share), and that one-half of the latter should be carried forward to next year.

(*c*) On investigation, it was discovered that the Carriage Account contained items amounting to £236, representing Freight on Machinery erected at the factory, and it was decided to transfer this amount to the Machinery Account. It was also found that the Wages Account included £93, representing the wages of men employed in erecting the machinery; it was decided to treat this item in the same manner.

(*d*) One quarter's Rent of the factory, amounting to £52, was owing on 31st December, and must be reserved for.—(*Royal Society of Arts.*)

CHAPTER XXIII

DOUBLE ACCOUNT SYSTEM

What the Double Account System is.—The Double Account system is a method of stating the accounts of companies incorporated under special Acts of Parliament for the purpose of acquiring, or constructing, and working large public undertakings such as railways, tramways, gas works, electric light installations, etc.

Application of Double Account System.—The Double Account system is compulsory in the case of Railway and Tramway Companies governed by the Regulation of Railways Act, 1868, as modified by the Railway (Accounts and Returns) Act, 1911, and Parliamentary Gas Companies adopting the Gas Works Clauses Act, 1871. Under the Electric Lighting Acts, 1882-90, the Board of Trade has prescribed for Electric Light Companies a form of accounts based on the Double Account System. Other companies have also adopted the system, especially those that invest their capital in fixed or permanent assets for the purpose of earning income, such as Water and Electric Power Companies, Telegraph, Telephone, and Cable Companies, Companies holding lands and buildings for letting purposes, Canal, Shipping and Tramway Companies, Mining and Quarrying Companies.

Difference between Single Account and Double Account Systems—Under the Single Account system, the assets and liabilities are all grouped in one final account, called the Balance Sheet. Under the Double Account system, the Balance Sheet is divided into two parts, the first part, called the Capital Account, dealing with the *fixed* or permanent assets and the Capital and Debentures subscribed, and the second part, called the General Balance Sheet, dealing with the *floating* assets and floating liabilities. In the Single Account system the assets appear in the Balance Sheet less any depreciation written off them. In the Double Account system the assets are not written down in the Capital Account, but appear therein at cost.

Capital Account.—This is the first part of the Double Account Balance Sheet. It contains the balances of the different items of Receipts and Expenditure on capital account, as they appear in the special Capital Account Ledger. On the one side, therefore, are receipts from shares or stock and debentures, including premiums, and on the other side are the various assets on which the money so received has been spent. It will be noted that Parliamentary Expenses in promoting special Acts of Parliament, and also Law Charges in connection with land, appear as items of capital expenditure.

General Balance Sheet.—This is the second part of the Double Account Balance Sheet. It includes the balance of the Capital Account (in Electric Light Companies the totals of each side), the floating assets such as Stocks, Debtors, Cash, etc., and the floating liabilities such as Creditors, Reserve Fund Account, Depreciation Fund Account, and Revenue Account balance.

Distinction between Capital and Revenue.—The distinction between capital and revenue is carefully maintained under the Double Account system. *Capital Expenditure* consists of the various sums expended in constructing or acquiring and extending the undertaking. *Revenue Expenditure* comprises repairs, renewals, and all expenses of working and administration. *Capital Receipts* include all amounts received from shareholders, stockholders, and debenture holders. *Revenue Receipts* consist of all income earned by the undertaking. The surplus of revenue receipts over revenue expenditure is considered to be profit, notwithstanding the fact that very often no provision has been made for depreciation.

Depreciation and Renewals.—As previously mentioned, under the Double Account system assets are not written down in the Capital Account, as the undertaking is expected to be maintained in proper working order out of revenue. Depreciation is, however, provided for by charging Net Revenue Account with a fixed percentage on each asset and crediting all such amounts to a Depreciation Fund Account. In the case of Gas Companies, such funds are compulsory for leasehold works, and, in the case of Electric Light Companies, for leasehold works, buildings, plant and machinery; further, the funds must be represented by actual investments. Some companies also build up a Repairs and Renewals Reserve, by debiting a fixed amount to Revenue Account. Actual repairs and renewals are then charged to the Reserve instead of to the Revenue Account. The operation of such a Reserve has already been explained in the chapter on Depreciation. It has the effect of averaging such charges, and thus prevents a very large item of expenditure in any one year reducing the normal rate of dividend, or rendering it impossible to pay a dividend at all.

Advantages of the Double Account System.—The chief advantage of the Double Account System is that the Capital Account, being of the nature of a Cash Account, would be readily understood by shareholders and others not knowing book-keeping or accountancy. It can easily be seen, on one side, how much money has been obtained from shareholders and debenture holders, and, on the other side, how such money has been spent, and also how much remains to work the undertaking.

Disadvantages of the Double Account System.—The disadvantages attaching to the system are :—

(1) *The profits of the various years are not correctly shown.*

Fixed assets having to be replaced out of revenue, involve a heavy charge against the particular year in which the renewal takes place. Although the asset has been rendering the same service year by year, yet the previous years, which should have borne an equal part of the charge for renewal, have borne no part at all. The profits of those particular years have, therefore, to this extent been over-stated and consequently the profits of the year of renewal will be considerably under-stated. This defect can, of course, be remedied by providing a Repairs and Renewals Reserve.

(2) *The Balance Sheet is not a true representation of the state of affairs.* As the assets have not been depreciated, they appear in the Balance Sheet at cost, although they may have been a very long time in use, may be worn out, or may have become obsolete.

Additions and Extensions.—Additional assets acquired are, of course, added to the Capital Account. It often happens, however, that replacements are accompanied by additions or extensions of the original asset, and the cost of such extensions has then to be allocated between capital and revenue. There are two methods of doing this. The first way is to write off to revenue the value of the asset as it appears in the Capital Account ; and to charge to capital the whole cost of replacement including extensions. Thus, if an asset, standing in the books at £120,000, was renewed and enlarged at a cost of £160,000, the £120,000 would be written off to revenue and the £160,000 would be charged to capital. The second way is to estimate the present cost of replacing the asset exactly as it stands, *i.e.*, without any extensions or additions, and to charge this amount to revenue ; the difference between this amount and the actual sum expended is considered to be the proper amount to charge to capital. Thus, taking the previous example, suppose the estimated cost of replacing the asset as it stands is £100,000 ; then £100,000 would be charged to revenue, and the balance of £60,000 would be debited to capital. The respective allocations under the two methods, therefore, are :—

	Capital.	*Revenue.*
First Method	£160,000	£120,000
Second Method. . . .	180,000	100,000

Whatever sum of money is obtained by the sale of old material is credited to Revenue Account, not as a separate item on the Income side, but on the Expenditure side, as a deduction from the cost of replacement.

Example of Statutory Accounts of a Railway Company

The following are the balances of a Railway Company for the year ending 31st Dec., 19... Required the Capital and Summary of Revenue Accounts with Appropriation Statement.

Receipts on Capital Account :—

Ordinary, Preference, and Guaranteed Stocks to 31st Dec., 19..	£7,500,000
Received during current year..	100,000
Loans received by the Company	1,000,000
Debenture Stock	1,500,000
Premiums received on Shares and Stocks	20,000
Premiums received on Debenture Stock	36,500

Expenditure on Capital Account :—

Lines open for traffic	5,100,000
,, during current year	400,000
Lines not open for traffic—	
Widening of existing lines	500,000
Do. do. do. (during year)..	200,000
Rolling Stock	1,000,000
Do. (during year)	300,000
Manufacturing and repairing Works and Plant	800,000
Do. do. do. (during year)..	100,000
Horses	80,000
Road Vehicles	10,000
Do. (during year)	1,000
Steamboats	400,000
Docks, Harbours, and Wharves	500,000
Do. do. do. (during year)	50,000
Hotels	200,000
Electric Power Stations	100,000
Land, property, etc., not forming part of the railway or stations	400,000

Revenue, Receipts, and Expenditure of Railway Company :—

	Receipts.	Expenditure.
Railway	£900,000	£600,000
Steamboats	90,000	30,000
Canals	105,000	40,000
Docks, harbours, and Wharves	120,000	60,000
Hotels, etc.	50,000	20,000

Miscellaneous Receipts. Net :—

Rents from Houses and Lands	5,500
Rents from Hotels	9,500
Interest and Dividends from Investments	49,500
Transfer Fees	65
General Interest	290

Charges on Net Revenue :—

Interest on Superannuation Funds	3,000
Rent Charges and Annuities	15,000
Chief Rents	1,500
Interest on Loans	40,800
Interest on Debenture Stocks	60,000
Balance from last year's Appropriation Statement ..	65,000
Appropriation to General Reserve	84,000
Dividends on Guaranteed and Preference Stocks ..	300,555
Cash at Bank and in hand	25,000

Investments in Consols and Government Securities	£1,000,000
Other Securities	997,000
Investment of Superannuation Fund	150,000
Stock of Stores and Materials	115,000
Outstanding Traffic Accounts	127,000
Amount due by Railway Companies	39,500
Miscellaneous Accounts	51,000
Sundry Crs. and Suspense Accounts	320,000
Amount due to Railway Clearing Houses	9,000
Superannuation Funds	150,000
Fire Insurance Fund	400,000
Depreciation Funds—	
Railway	900,000
Steamboats	70,000
General Reserve Fund	500,000

(*See* pages 914–16.)

QUESTIONS ON CHAPTER XXIII

1. What is the Double Account System?
2. In what companies is the Double Account System compulsory? To what other companies is it specially suited?
3. Explain the difference between (*a*) Double Entry and Double Account System; (*b*) Single Account and Double Account Systems.
4. What are the distinguishing features of the Double Account System?
5. Describe briefly (*a*) the Capital Account, (*b*) the General Balance Sheet, peculiar to the Double Account System.
6. Distinguish between Capital and Revenue in the Double Account System. How are Depreciation and Renewals sometimes dealt with under the Double Account System?
7. What are (*a*) the advantages, (*b*) the disadvantages attaching to the Double Account System?
8. How are additions and extensions dealt with under the Double Account System?

EXERCISE XXIII

1. To what class of enterprise does the system of book-keeping known as the Double Account System apply? Briefly explain its distinctive features as compared with the Single Account System.—(*Royal Society of Arts, Accounting and Banking.*)

2. Differentiate between the terms Double Account System and Double Entry System. In what classes of undertaking is the former system used? —(*London Chamber of Commerce.*)

3. What is the usual custom with undertakings, whose accounts are compulsorily kept on the Double Account System, as to providing for the wastage of their assets? If such provision be made, how does it generally appear in the published accounts?—(*Royal Society of Arts, Accounting and Banking.*)

4. There is a distinct difference when dealing with depreciation in Double Accounts, as compared with the Single Account System. How is depreciation dealt with in the Double Account System?—(*National Union of Teachers.*)

No. 4. RECEIPTS AND EXPENDITURE ON CAPITAL ACCOUNT

To Expenditure.	Amount expended to 31st Dec., 19—	Amount expended during Year.	Total.
Lines open for traffic	5,100,000	400,000	5,500,000
Lines not open for traffic—			
New lines	—	—	—
Widening of existing lines	500,000	200,000	700,000
Rolling stock	1,000,000	300,000	1,300,000
Manufacturing and repairing works and plant	800,000	100,000	900,000
Total Capital expended on Railway			8,400,000
Horses	80,000	—	80,000
Road Vehicles	10,000	1,000	11,000
Steamboats	400,000	—	400,000
Docks, Harbours, and Wharves	500,000	50,000	550,000
Hotels	200,000	—	200,000
Electric Power Stations	100,000	—	100,000
Land, Property, etc., not forming part of the Railway or stations	400,000	—	400,000
Total Expenditure			10,141,000
Balance to General Balance Sheet			15,500
			£10,156,500

By Receipts.	£	Amount received to 31st Dec., 19—	Amount received during Year.	Total.
Shares and Stocks		7,500,000	100,000	7,600,000
Loans		1,000,000	—	1,000,000
Debenture Stock		1,500,000	—	1,500,000
Premiums on Shares and Stocks	20,000			
Premiums on Debenture Stock	36,500			
Total Premiums	56,500			
Discounts on Shares and Stocks	—			
Discounts on Debenture Stock	—			
Total Discounts	—			
Balance of Premiums and Discounts				56,500
Total Receipts				10,156,500
Balance to General Bal. Sheet				—
				£10,156,500

No. 8. REVENUE RECEIPTS AND EXPENDITURE OF THE WHOLE UNDERTAKING

See Statement.		Gross Receipts.	Expenditure.	Net Receipts.
10	Railway	900,000	600,000	300,000
11	Omnibuses, etc.	—	—	—
12	Steamboats	90,000	30,000	60,000
13	Canals	105,000	40,000	65,000
14	Docks, Harbours, and Wharves	120,000	60,000	60,000
15	Hotels, etc.	50,000	20,000	30,000
	Miscellaneous Receipts (Net)—			
	Rents from Houses and Lands			5,500
	Rents from Hotels			9,500
	Interest and Dividends from Investments			49,500
	Transfer Fees			65
	General Interest			290
				£579,855

No. 9. PROPOSED APPROPRIATION OF NET INCOME

Balance brought forward from last year's account		65,000
Net Income as per Statement No. 8		579,855
Appropriation from Reserve		—
Total		644,855
Deduct: Interest, Rentals, and other fixed charges—		
Interest on Superannuation funds	3,000	
Rent Charges and Annuities	15,000	
Chief Rents	1,500	
Interest on Loans	40,800	
Interest on Debenture Stocks	60,000	
Total	£120,300	120,300
		524,555
BALANCE.		
Appropriation to Reserve and other special purposes	84,000	
Dividends on Guaranteed and Preference Stocks	300,555	384,555
Balance available for dividends		£140,000

No. 18. GENERAL BALANCE SHEET

Dr.		*Cr.*	
To Capital A/c balance at credit thereof as per A/c No. 4	15,500	Cash at Bankers and on hand	25,000
Sundry Creditors and Suspense A/cs	320,000	Investments in Consols and Government Securities	1,000,000
Amount due to Railway Clearing Houses	9,000	Other Securities	997,000
Superannuation Funds	150,000	Investment of Superannuation Fund	150,000
Fire Insurance Fund	400,000	Stock of Stores and Materials	115,000
Depreciation funds—		Outstanding traffic accounts	127,000
Railway	900,000	Amount due by Railway Companies	39,500
Steamboats	70,000	Miscellaneous accounts	51,000
General Reserve Fund	500,000		
Balance available for dividends as per A/c No. 9	140,000		
	£2,504,500		£2,504,500

5. Describe briefly the difference in the method of recording and presenting the Capital Account of an ordinary Commercial Limited Company, whose accounts are kept upon the Single Account System as compared with a Company working under a special Act of Parliament whose accounts are necessarily kept upon the Double Account System. Give a *pro formâ* Capital Account of an enterprise working under the latter system.—(*Royal Society of Arts, Accounting and Banking.*)

6. (*a*) What undertakings, in general, keep their accounts upon the Double Account System? (*b*) What is the principal, if not the sole, reason for employing this form of accounts?—(*National Union of Teachers.*)

7. Give a *pro formâ* example of a Capital Receipts and Expenditure Account under the Double Account System. State briefly how depreciation can be provided for under this system of accounting.—(*Royal Society of Arts, Accounting and Banking.*)

8. Are the published accounts of Gas Companies subject to any statutory regulations? Give the rulings you would recommend for any two of the principal books employed by Gas Companies, and briefly describe the uses of the books you illustrate.—(*London Chamber of Commerce.*)

9. How are Depreciation and Renewals of Fixed Assets treated in the Accounts of an Electric Light undertaking?—(*Chartered Accountants.*)

10. The figures given below relate to the Cornwall Colliery Co. for the year ending 31st December.

You are requested to construct from them a Capital Account and General Balance Sheet on the Double Account System, and then exhibit the same figures in a Balance Sheet on the Single Account System.

Nominal Capital	£250,000	Office Buildings	£3,000
110,000 Ordinary Shares of £1 each, fully paid	110,000	Workmen's Cottages	9,000
60,000 6% Preference Shares of £1 each, fully paid	60,000	Depreciation Fund	20,000
Debentures 5%	30,000	Reserve Fund	15,000
Bills Payable	6,000	Balance to Credit of Profit and Loss Account	25,000
Sundry Creditors	9,000	Stock on hand	12,000
Lands acquired	8,500	Investments	17,000
Shaft Sinking, etc.	111,000	Sundry Debtors	35,000
Plant and Machinery	35,000	Cash in hand and at Bank	30,000
Wagons	13,500	Short Workings Account	1,000

The above figures include an issue of 10,000 Preference Shares during the year; and the following amounts were also spent during the same period:—Shaft Sinking, £6,000; Machinery, £5,000; Wagons, £3,000; Workmen's Cottages, £1,000.—(*National Union of Teachers.*)

11. Provide for the undermentioned depreciations, and prepare a Revenue Account, Capital Account, and Balance Sheet from the following Trial Balance. A call of £1 per share was payable on the 31st December, and arrears are subject to interest at 5% per annum.

Depreciation to be provided for on: Buildings, 2½%; Machinery, 7½%; Mains, 5%; Transformers, etc., 10%; Meters and Electrical Instruments, 15%.

DYNAMO ELECTRIC LIGHTING CO., LTD.
TRIAL BALANCE, 30*th June*

Amount last June 30		£	£
£	Nominal 10,000 Shares of £10 each		
20,000	Subscribed 5,000 Shares of £10 each £5 paid		25,000
15,000	Debentures, 6% Interest		15,000
1,000	Depreciation Fund		1,000
	Calls in Arrear	1,000	
9,300	Freehold Land	9,300	
4,000	Buildings	5,000	
6,000	Machinery at Station	10,000	
5,000	Mains	8,000	
1,000	Transformers, Motors, etc.	2,000	
500	Meters	1,500	
300	Electrical Instruments	400	
1,600	General Stores (Cables, Mains, and Lamps) in stock	2,350	
250	Office Furniture	250	
	Coal and Fuel	1,900	
	Oil, Waste, and Engine Room Stores	750	
	Coal, Oil, Waste, etc., in stock	100	
	Wages at Station	3,000	
	Repairs and Replacements	500	
	Rates and Taxes	300	
	Salaries of Secretary, Manager, etc.	1,500	
	Directors' Fees	1,000	
	Stationery, Printing, and Advertising	600	
	Incidental Expenses	100	
	Law Charges	200	
	Sales by Meter		8,750
	,, by Contract.		5,000
	Meter Rents.		300
	Sundry Creditors		1,000
	,, Debtors	3,000	
	Cash in hand and at Bank	3,300	
		56,050	56,050

—(*Chartered Accountants.*)

12. The following is the Trial Balance of the Durham Railway Co. after the completion of the Revenue Account for the half-year ended 31st December :—

3½% Preference Stock	£300,000	General Stores, Stocks on hand	£10,000
Ordinary Stock.	500,000	Traffic Accounts due to Company	10,000
4% Debenture Stock.	200,000	Due from other Companies.	1,000
Lines open for Traffic	851,950	Sundry outstanding A/cs *Dr.*	4,000
,, in course of Construction	5,000	Debts due to other Companies	500
,, not commenced	50	Sundry Tradesmen, etc. *Cr.*	20,000
Working Stock (Engines, Carriages, etc.)	130,000	Fire Insurance Fund	1,500
Contributions to Joint Lines	50,000	Superannuation Fund	5,000
Premiums on Stock	25,000	Balance to credit of Net Revenue Account	20,000
Purchase of Grand Canal	5,000		
Cash at Bank	5,000		

Prepare Balance Sheet.—(*Chartered Accountants.*)

13. THE TRENT VALLEY WATER CO.

Trial Balance on 31st December

60,000 Ordinary Shares of £1 each, fully paid	£60,000	Printing	£50
20,000 Preference Shares of £1 each, fully paid, 6%	20,000	Incidental Expenses	37
Debenture Stock, 5%	20,000	Maintenance of—	
Premiums on Shares	20,000	Pumping Stations	1,705
Expended on—		Reservoirs	500
Purchase of Land	3,000	Filter Beds	150
Construction of Works	102,330	Repairs to Mains	220
Mains and Service Pipes	11,920	General Repairs	155
Meters	1,050	Directors' Fees	400
Parliamentary Expenses	2,000	Auditors' Fees	50
Sundry Debtors	48	Rates and Taxes	2,500
„ Creditors	841	Interest on Debenture Stock to date	1,000
Reserve Fund	258	Dividends on Preference Shares to date	1,200
Sundry Debtors for Water Rates due	1,242	Interim Dividend on Ordinary Shares, 1st Aug.	3,000
Stores on hand	340	Water Rents *Cr.*	14,667
Investments—		General Rents *Cr.*	350
National War Loan Stock, at par	250	Transfer Fees	24
Cash in hand	60	Unclaimed Dividends	20
„ at Bank	3,353	Balance of net Revenue A/c, 1st Jan. *Cr.*	1,000
Salaries	600		

The Reserve Fund is to be raised to £500, and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

You are requested to make out: 1. Capital Account. 2. Revenue Account. 3. Net Revenue Account. 4. Reserve Fund Account; and 5. General Balance Sheet.—(*National Union of Teachers.*)

14. Open and completely post up Ledger Accounts recording the following transactions:—

(*a*) The charging of sundry consumers with £320 10s. for Gas consumed.

(*b*) The receipt of same in cash from sundry persons, *less* 5% discount.

(*c*) The sale of 20 tons 5 cwts. of Coke at 6s. 8d. per ton to John Smith on credit.

(*d*) The receipt of £5 on account of above from John Smith.

(*e*) The purchase of Gas Fittings worth £125 from A B Co. on "sale or return."

(*f*) The return of £20 worth of Fittings to the A B Co.—(*National Union of Teachers.*)

15. How would you deal with the following transactions in the books relating to a Municipal Water Works? Your answers may take the form of Journal entries.

(1) The borrowing of £10,000 from the Atlas Assurance Co. at 4% interest, repayable by equal annual instalments of principal in 20 years, with interest half-yearly on the balance outstanding.

(2) The payment of the first year's instalment of principal.

(3) The payment of six months' interest (*less* income tax at 1s. in the £) on the balance outstanding after payment of the first year's instalment of principal. Income tax paid to Commissioners in the usual way.

(4) The payment to Messrs. Stone & Co., Contractors, of a sum of £500 (*less* 20% retention money) in respect of a contract for laying water mains.

(5) The purchase of Sundry Materials worth £78 9s. 6d. from S. Johnson & Co.

(6) Payment to S. Johnson & Co. of the above amount.

(7) The using of £15 worth of the above materials for repairs of mains. —(*National Union of Teachers.*)

16. The following are the balances of the Great Southern Railway for the half-year ending 31st December. You are requested to make out, in the prescribed form:—

1. Capital Account. 2. Revenue Account. 3. Net Revenue Account. 4. General Balance Sheet.

Ordinary Stock	£5,192,500
4% Preference Stock	2,702,711
Debenture Stock	1,526,258
Premiums received	55,653
Expended—	
upon lines open for traffic to 30th June	9,181,704
upon the above during current half-year	44,304
upon Working Stock to 30th June	616,961
upon Working Stock during current half-year	654
Expended upon—	
Maintenance of Way, Stations, etc.	38,373
Locomotive Power	93,008
Carriage and Wagon Repairs	14,858
Traffic Expenses	61,098
General Charges	13,342
Shipping Expenses	18,199
Dock and Harbour Expenses and Repairs	9,371
Law Charges	2,697
Parliamentary Expenses	3,834
Compensation	354
Mileage and Demurrage	447
Rates and Taxes	31,060
Government Duty	395
Receipts from—	
Passengers	106,401
Parcels, Carriages, and Horses	9,578
Mails	£2,641
Merchandise	43,508
Minerals	280,448
Shipping	19,355
Docks and Harbours	39,501
Rents	3,977
Interest on Debenture Stock	22,894
Rents payable on Leased Lines, Guarantees, etc.	31,876
Balance to Credit of Net Revenue A/c, 30th June	62,666
General Interest A/c— Credit Balance	290
Cash in hand and at Bank	45,528
General Stores—Stock on hand	39,363
Traffic A/cs due to the Co.	73,658
Amounts due from other Companies	12,356
Amounts due from Post Office	1,446
Sundry Debtors	25,103
Unpaid Dividends and Interest	2,612
Debts due to other Companies	59,730
Amount due to the Clearing House	12,417
Sundry Creditors and Suspense A/cs	198,806
Fire Insurance Fund	23,945
Reserve Fund	22,419
Employees' Savings Bank Deposits	17,467

—(*National Union of Teachers.*)

REVISION EXERCISE XXIII.

1. How would you deal with the undermentioned items when preparing the annual Accounts of a Company?—

(*a*) Premiums received on an issue of Debentures.

(*b*) A Policy on the life of A B for £5,000 (payable at death without profits), taken over against a Bad Debt of £6,000. A B is 70 next birthday, and the annual premium on the policy amounts to £130.

(*c*) A new cigarette-making machine invoiced at £750, from which an

allowance of £300 was subsequently made in consideration of the machine being exhibited in daily use at the Company's Stand at the Franco-British Exhibition.—(*Royal Society of Arts, Accounting and Banking.*)

2. What books, in addition to the ordinary Books of Account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide?—(*London Chamber of Commerce.*)

3. Criticise the following Trading and Profit and Loss Account and Balance Sheet; and draw them as you would present them to the shareholders of the Company at the Annual Meeting, giving *pro formâ* figures for any items you think should be inserted:—

THE PATENT MIXTURES CO., LTD.

TRADING AND PROFIT AND LOSS ACCOUNT

for the year ended 31st August

Dr.			*Cr.*	
To Stock on hand	£5,321		By Goods sold	£5,571
Less Plant	2,108		„ Additions to Plant.	180
		£3,213	„ Stock in hand	4,153
„ Goods bought		5,130	„ Balance to Balance Sheet	514
„ Wages		915		
„ Carriage		55		
„ Branch Wages & Expenses		312		
„ Bad Debts		210		
„ Rent, Rates, and Insurance		319		
„ Trade Charges		264		
		£10,418		£10,418

Balance Sheet

Liabilities		*Assets*	
Share Capital	£5,433	Sundry Debtors	£2,890
X Y Z	1,509	Plant and Machinery	2,265
Bankers	769	Stock in hand	4,153
Sundry Creditors	2,114	Cash in hand	3
		Balance	514
	£9,825		£9,825

—(*Royal Society of Arts, Accounting and Banking.*)

4. Thomas Robinson applied, on 1st March, for 100 Shares of £10 each in Slater, Ltd., and paid application, allotment, and first call each of £1 per share. Then he failed, and the Company, being able to recover only £55 of the whole balance (£700) due from him, forfeited his shares. Make the entries necessary to record correctly the forfeiture aforesaid.—(*Chartered Accountants.*)

5. How should the undermentioned items be treated in the Accounts of a Limited Company?—

(1) An issue of 1,000 Debentures of £100 each, issued 1st January, at 90, repayable in 10 years.

(2) An expenditure of £5,000 on advertising a new patent medicine. The sales for the first year amounted to £1,500, but were on the up grade.

(3) A debt owing by a director of the Company.—(*London Chamber of Commerce.*)

6. The Sherbourne Iron Furnace Co., Ltd., has a registered Capital of £150,000, divided into 150,000 shares of £1 each; £120,000 shares, upon which 10s. per share has been called up, have been issued and subscribed. Owing to default by non-payment of Calls, 100 shares, upon which £5 have been received, have been forfeited in accordance with the Articles of Association.

On 30th September the Stock in hand was taken, the value of which, certified by the Managing Director, was as follows:—

Pig Iron	£16,045	Coal and Coke	£900
Limestone	78	Iron Ore, etc.	1,128

The Ledger Balances on 30th September, set out below, were extracted from the Company's books, after all the necessary trade reserves and depreciations had been adjusted.

Prepare a "Furnaces" (or Working) Account, showing the cost of the Pig Iron produced, a Trading Account and Profit and Loss Account for the year ended 30th September, and a Balance Sheet as on that date, after carrying £2,000 to the Dividend Reserve Account:—

LEDGER BALANCES.—30*th Sept.*

Freehold Premises A/c	£23,400	Rates and Taxes A/c	£1,297
Furnaces, Fixed Plant, and Utensils A/c	24,920	Repairs and Renewals of Furnaces, etc., A/c	2,500
Locomotives and Rolling Stock A/c	7,411	Repairs and Renewals of Rolling Stock, etc., A/c	1,221
Reserve A/c	2,000	Office Salaries and Sundry Wages A/c	1,728
Share Capital A/c	59,950	Travelling Expenses A/c	237
Wages (Furnaces) A/c	8,724	Insurance (Fire and Employers' Liability) A/c	385
Bills Payable A/c	120	Law Charges A/c	233
Limestone Stock A/c, 1st Oct.	122	Forfeited Shares A/c	5
Coal and Coke Stock A/c, 1st Oct.	1,400	Sundry Creditors	5,604
Iron Ore, etc., Stock A/c, 1st Oct.	1,006	Bad Debts A/c (debit balance)	9
Pig Iron Stock A/c, 1st Oct.	26,272	Dividend A/c (Paid 31st Mar., on account of the year ended 30th Sept. last)	5,995
Coal and Coke Purchases A/c	27,227	Bank Overdraft	1,981
Limestone Purchases A/c	3,320	Cash in hand	224
Iron Ore, etc., Purchases A/c.	14,467	Carriage A/c (inwards)	2,000
Sundry Debtors	7,257	„ „ (outwards)	3,000
Profit and Loss A/c (credit balance)	7,822		
Sales A/c	86,873		

—(*Royal Society of Arts.*)

7. The A. R. Waddell Co., Ltd., which was formed to purchase a manufacturing business, was registered on 1st January, with a nominal Capital of £100,000, divided into 10,000 Ordinary Shares of £10 each. With the undermentioned exception, these shares were offered to the public, and 7,500 were subscribed for and duly allotted. As part purchase price of the business, 500 shares were allotted as fully paid to the vendor. The shares issued to the public were payable as follows:—

£2 10s. per share on application, £2 10s. on allotment, £2 10s. on

31st March, and the balance as and when required. The final balance had not been called up on 31st December.

In addition to the balance of the Capital account, the following balances appeared in the books of the Company on 31st December :—

Salaries	£3,060	Reserve for Bad Debts	£250
Manufacturing Wages	22,421	Goodwill	10,000
General Expenses	941	Purchases—Returns	4,001
Stock (1st Jan.)	10,210	Sales—Returns	4,759
Rents received	300	Bills Payable	962
Reserve for Depreciation of Buildings	3,000	Alterations & Improvements	2,505
Carriage	6,119	Advertising	2,793
Sundry Debtors	16,342	Directors' Fees	750
,, Creditors	6,124	Legal Expenses	61
Rates, Taxes, and Insurance	2,450	Preliminary Expenses	447
5% Debentures	5,000	Plant, Machinery, and Fixtures	9,510
Debenture Interest (from date of issue to 30th June)	107	Lighting and Heating	766
Purchases	102,551	Discount A/c (debit balance)	1,174
Sales	142,412	Travellers' Expenses and Commission	647
Calls in arrear	250	Bank Overdraft	1,789
Repairs and Renewals	1,027	Cash in hand	198
Freehold Land & Buildings	26,000		

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date.

State briefly what conclusions the accounts of the Company would lead you to arrive at.

Before preparing the accounts, it is necessary to take the following matters into consideration :—

(*a*) 10% Depreciation is to be written off Plant and Machinery.

(*b*) The Reserve for Bad Debts is to be made up to £500.

(*c*) £50, representing Insurance paid in advance, is to be carried forward.

(*d*) The amount spent upon alterations and improvements is to be written off by equal instalments over a period of 5 years.

(*e*) The whole of the Preliminary Expenses (part having been borne by the vendor) are to be written off.

(*f*) The Stock-in-hand, as on 31st December, was valued at £12,347. —(*London Chamber of Commerce.*)

CHAPTER XXIV

BONUS SHARES, REDUCTION OF CAPITAL, REDEMPTION OF DEBENTURES

WHEN a company has accumulated large reserves out of profits, these reserves, or a portion of them, are often capitalised by the issue of free or bonus shares, so that the shareholders may derive some benefit from such reserves. As the result of successful trading the market price of the shares will probably be at a premium, and such shares are frequently issued at a premium in order that the smallest possible amount may be capitalised; a largely augmented capital might reduce the rate of dividend, unless profits continued to increase. Where the capital of a company is only partly called up, such bonus is often applied towards making the shares fully paid.

(1) Bonus Shares issued at par

Example.—A Company with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £70,000, resolves to capitalise £50,000 of it by issuing to the shareholders 50,000 bonus shares of £1 each fully paid, each shareholder to receive one bonus share for every four shares held in the company. Show the entries required to record the transaction.

JOURNAL.	Dr.			Cr.		
Reserve Account	50,000	–	–			
To Bonus Account				50,000	–	–
Bonus payable out of Reserve in fully-paid shares as per Resolution dated.....						
Bonus Account	50,000	–	–			
To Share Capital Account . .				50,000	–	–
Issue of 50,000 bonus shares of £1 each in payment of bonus, at the rate of 1 bonus share for every 4 shares held in the company.						

(2) Bonus applied to making Shares fully paid

Example.—A Company with a nominal and issued capital of £200,000, in £1 shares, 15s. per share paid, declares a bonus out of the Reserve Fund, at the rate of 33⅓ per cent. on the paid-up

capital, with the object of making the shares fully paid. Show the entries necessary to record the transaction.

JOURNAL.	Dr.			Cr.		
Final Call Account	50,000	–	–			
To Share Capital Account . .				50,000	–	–
Call of 5s. per share on 200,000 shares, as per resolution dated.....						
Reserve Fund Account	50,000	–	–			
To Bonus Account				50,000	–	–
Bonus of 33⅓% on £150,000 paid-up Capital, payable out of the Reserve Fund, as per resolution dated.....						
Bonus Account	50,000	–	–			
To Final Call Account . . .				50,000	–	–
Application of bonus to payment of Final Call, as per resolution dated.....						

REDUCTION OF CAPITAL

Provisions of the Companies Acts.—By sections 46 and 47 of the Companies (Consolidation) Act, 1908, it is enacted as follows :—

Subject to confirmation by the Court, a company limited by shares, if so authorised by its Articles, may by special resolution reduce its share capital in any way, and in particular (without prejudice to the generality of the foregoing power) may:—

(*a*) Extinguish or reduce the liability on any of its shares in respect of share capital not paid up; or

(*b*) Either with or without extinguishing or reducing liability on any of its shares, cancel any paid-up share capital which is lost or unrepresented by available assets; or

(*c*) Either with or without extinguishing or reducing liability on any of its shares, pay off any paid-up share capital which is in excess of the wants of the company,

and may, if and so far as is necessary, alter its memorandum by reducing the amount of its share capital and of its shares accordingly. (Sec. 46.)

Where a company has passed and confirmed a resolution for reducing share capital, it may apply by petition to the Court for an order confirming the resolution. (Sec. 47.)

The Court, however, will first require the debts of objecting creditors to be discharged or secured. The order of the Court must also be registered before it takes effect.

Limited and Reduced.—By section 48 of the same Act it is also provided that :—

On and from the confirmation by a company of a resolution for reducing share capital, or where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment to any shareholder of any paid-up share capital, then on and from the presentation of the petition for confirming the reduction, the company shall add to its name, until such date

as the Court may fix, the words " and reduced," as the last words in its name, and those words shall, until that date, be deemed to be part of the name of the company :

Provided that, where the reduction does not involve either the diminution of any liability in respect of unpaid share capital or the payment to any shareholder of any paid-up share capital, the Court may, if it thinks expedient, dispense altogether with the addition of the words " and reduced."

(1) Writing off Losses

Example.—A Limited Company, having sustained heavy losses obtained the sanction of the Court to reduce its Capital from 100,000 shares of £1 each, 10s. per share paid up, to 100,000 shares of £1 each, 5s. per share paid up. Make the necessary Journal entry, and state how the Share Ledger and Certificates will be adjusted.

JOURNAL.		Dr.			Cr.		
Share Capital Account . . .		25,000	–	–			
To Profit and Loss Account . .					25,000	–	–
Reduction of 100,000 shares of £1 each, 10s. per share paid, to 100,000 shares of £1 each, 5s. per share paid, as per Order of the Court dated							

In the Share Ledger, each page will be impressed with a rubber stamp referring to the resolution and its effect. The Share Certificates will either be dealt with in a similar manner or else new ones will be issued to replace them.

(2) Extinguishing Losses and Writing down Assets

Example.—The following is the Balance Sheet of the Thetis Co. Ltd., as at 31st Dec., 19...

Capital and Liabilities		*Property and Assets*	
Nominal Capital—		Freehold Land and Buildings	£25,000
120,000 Ord. Shares of £1	£120,000	Machinery and Plant .	55,420
120,000 Pref. Shares of £1	120,000	Patents	67,000
	£240,000	Stock	8,250
Issued Capital—		Sundry Debtors . .	4,738
100,000 Ord. Shares of £1 each . . .	£100,000	Preliminary Expenses .	5,000
80,000 Pref. Shares of £1 each . . .	80,000	Cash in hand . . .	60
Bank Overdraft . .	4,000	Profit and Loss A/c—balance at debit . .	30,532
Sundry Creditors . .	12,000		
	£196,000		£196,000

Resolutions were passed, (1) That the £1 Preference and Ordinary Shares be reduced to the same number of fully-paid shares of 12s. 6d. each; (2) That the sum thus rendered available be applied as follows: (*a*) The balances to the debit of Profit and Loss and Preliminary Expenses to be written off; (*b*) the Machinery and Plant to be reduced to £40,000; (*c*) £1,000 to be written off the Stock; (*d*) the balance to be utilised to reduce the Patents Account. Make the necessary Journal entries, and draw up the new Balance Sheet.

JOURNAL.

	Dr.	Cr.
Preference Share Capital Account . .	30,000 – –	
To Capital Reduction Account . .		30,000 – –
80,000 Preference Shares of £1 each fully paid, reduced to 80,000 shares of 12s. 6d. each, fully paid, as per resolution dated.....		
Ordinary Share Capital Account . .	37,500 – –	
To Capital Reduction Account . .		37,500 – –
100,000 shares of £1 each, fully paid, reduced to 100,000 shares of 12s. 6d. each, fully paid, as per resolution dated.....		
Capital Reduction Account	67,500 – –	
To Profit and Loss Account . .		30,532 – –
,, Preliminary Expenses Account .		5,000 – –
,, Machinery and Plant Account .		15,420 – –
,, Stock Account		1,000 – –
,, Patents Account		15,548 – –
Amounts written off, as per resolution dated		

BALANCE SHEET OF THE THETIS COMPANY, LIMITED AND REDUCED.

Capital and Liabilities			*Property and Assets*	
Nominal Capital—			Freehold Buildings . . .	25,000 – –
120,000 Ord. Shares of 12s. 6d. .	£75,000		Plant and Machinery . .	40,000 – –
120,000 Pref. Shares of 12s. 6d. .	75,000		Patents	51,452 – –
	£150,000		Stock	7,250 – –
			Sundry Debtors . . .	4,738 – –
			Cash in hand	60 – –
Issued Capital—				
100,000 Ord. Shares of 12s. 6d.		62,500 – –		
80,000 Pref. Shares of 12s. 6d.		50,000 – –		
Bank Overdraft . . .		4,000 – –		
Sundry Creditors . . .		12,000 – –		
		128,500 – –		128,500 – –

Return of Accumulated Profits in Reduction of Paid-up Share Capital.—Under section 40 of the C. C. A., 1908, when a company

has accumulated a sum of undivided profits, which, with the sanction of the shareholders may be distributed among the shareholders in the form of dividend or bonus, it may, by special resolution, return the same or any part thereof, to the shareholders *in reduction of the paid-up capital* of the company, the unpaid capital being thereby increased by a similar amount. Objecting shareholders may, however, request the company to retain and invest their amounts, treating them as calls paid in advance. The amount returned to the shareholders is credited to Cash and debited to the Reserve, a transfer of equal amount being debited to Share Capital Account and credited to a Capital Reserve Account.

REDEMPTION OF DEBENTURES

Debentures being money borrowed by Limited Companies for a period of years, on the expiration of the agreed time the money has to be repaid. This may be done in various ways: (1) Out of Profits, (2) Out of Capital, (3) By means of a Sinking Fund.

(1) Out of Profits

Example 1.—A Limited Company has a balance of £6,300 at the credit of its Profit and Loss Account. Instead of declaring a dividend, it is resolved to utilise the profits to repay its £6,000 Debentures now redeemable at a premium of 5 per cent. Make the necessary entries in the Journal and Cash Book.

JOURNAL.

	Dr.	Cr.
Profit and Loss Account . . .	6,300 – –	
To Appropriation Account . .		6,300 – –
Transfer of balance.		
Appropriation Account . . .	300 – –	
To Premium on Repayment of Debentures		300 – –
Premium on repayment now provided.		
Debentures Account	6,000 – –	
Premium on Repayment of Debentures	300 – –	
To Debenture Holders Account . .		6,300 – –
Transfer of balances.		
Appropriation Account . . .	6,000 – –	
To Capital Reserve Account . .		6,000 – –
Transfer of amount of profits equal to Debentures repaid.		

CASH BOOK.

Dr.				Cr.		
			By Debenture Holders . .	6,300	–	–

Example 2.—A Limited Company has power under its Articles of Association to apply its profits in the purchase of its Debenture Stock in the open market and to cancel same. The amount standing to the credit of Profit and Loss Account is £8,000, and to the credit of Debenture Stock Account, £40,000. The Company's Bank balance is £20,000. The directors decide to expend £8,000 in purchasing and cancelling further Debenture Stock, the market price of which, inclusive of all charges, is 92 per cent. Show the Ledger accounts affected.

Dr. CASH BOOK. *Cr.*

To Balance . . .	20,000	–	–	By Debenture Stock— £8,695 13s. @ 92% .	8,000	–	

Dr. DEBENTURE STOCK ACCOUNT. *Cr.*

To Cash— £8,695 13s. @ 92% . . .	8,000	–	–	By Balance . .	40,000	–	–
,, Transfer to Capital Reserve A/c (profit on purchase) .	695	13	–				
,, Balance c/d . .	31,304	7	–				
	40,000	–	–		40,000	–	–
				By Balance b/d . .	31,304	7	–

Dr. APPROPRIATION OF PROFIT ACCOUNT. *Cr.*

To Transfer to Capital Reserve A/c .	8,000	–	–	By Profit and Loss A/c	8,000	–	–

Dr. CAPITAL RESERVE ACCOUNT. *Cr.*

				By Appropriation A/c .	8,000	–	–
				,, Debenture Stock A/c	695	13	–
					8,695	13	–

The Cash having, in each of the two examples, been paid away on account of Debentures, it is not available to pay the profits by way of dividend, but the amount would be available for dividend if the company was in funds later.

(2) Out of Capital

Example—A Limited Company issued £15,000 Debentures at a discount of 5 per cent., repayable *at par* by annual drawings of

£3,000. Make the necessary entries in the Company's books for the first year.

Dr. CASH BOOK. *Cr.*

					Year. 1	By Debentures Redeemed A/c . .	3,000	–	–

LEDGER

Dr. DEBENTURES ACCOUNT. *Cr.*

Year.					Year.				
1	To Transfer from Debentures Redeemed A/c	3,000	–	–	1	By Cash . . .	14,250	–	–
	„ Balance c/d . .	12,000	–	–		„ Discount . .	750	–	–
		15,000	–	–			15,000	–	–
					2	By Balance b/d . .	12,000	–	–

Dr. DEBENTURES REDEEMED ACCOUNT. *Cr.*

Year.					Year.				
1	To Cash . . .	3,000	–	–	1	By Transfer to Debentures A/c . .	3,000	–	–

(3) By means of a Sinking Fund

Example.—A Limited Company borrowed £6,000 Debentures at par, repayable in 6 years at a premium of 5 per cent. It decided to provide for redemption by means of a Sinking Fund at 4 per cent. compound interest. Show subsidiary book entries and the Ledger Accounts affected, and explain the procedure at the end of the period.

The annual instalment required to produce £6,000 in 6 years at 4 per cent. is (Table B, page 611) £6,000 × ·150761 = £904·566 = £904 11s. 4d.

JOURNAL.

		Dr.			*Cr.*		
Year. 1	Appropriation A/c	904	11	4			
	To Debenture Redemption Fund A/c				904	11	4
	Annual Sinking Fund instalment.						

and so on for subsequent years.

Dr. CASH BOOK. *Cr.*

Year.					Year.				
2	To Debenture Redemption Fund A/c (interest on investments) . .	36	3	8	1	By Debenture Redemption Fund Investment A/c . .	904	11	4
					2	By Debenture Redemption Fund Investment A/c (instalment plus interest)	940	15	–

and similar entries for succeeding years.

LEDGER

Dr. DEBENTURE REDEMPTION FUND ACCOUNT. *Cr.*

Year.					Year.				
1	To Amount c/d	904	11	4	1	By Approp. A/c	904	11	4
2	To Amount c/d	1,845	6	4	2	By Amount b/d	904	11	4
						„ Interest 4%	36	3	8
						„ Approp. A/c	904	11	4
		1,845	6	4			1,845	6	4
3	To Amount c/d	2,823	13	11	3	By Amount b/d	1,845	6	4
						„ Cash (Interest)	73	16	3
						„ Approp. A/c	904	11	4
		2,823	13	11			2,823	13	11
4	To Amount c/d	3,841	4	2	4	By Amount b/d	2,823	13	11
						„ Cash (Interest)	112	18	11
						„ Approp. A/c	904	11	4
		3,841	4	2			3,841	4	2
5	To Amount c/d	4,899	8	6	5	By Amount b/d	3,841	4	2
						„ Cash (Interest)	153	13	–
						„ Approp. A/c	904	11	4
		4,899	8	6			4,899	8	6
6	To Transfer to Capital Reserve A/c	6,000	–	–	6	By Amount b/d	4,899	8	6
						„ Cash (Interest)	195	19	6
						„ Approp. A/c (Adjustment of 8d.)	904	12	–
		6,000	–	–			6,000	–	–

Dr. [1] DEBENTURE REDEMPTION FUND INVESTMENT ACCOUNT. *Cr.*

Year.					Year.				
1	To Cash	904	11	4	1	By Amount c/d	904	11	4
2	To Amount b/d	904	11	4	2	By Amount c/d	1,845	6	4
	„ Cash (instalment plus interest)	940	15	–					
		1,845	6	4			1,845	6	4
3	To Amount b/d	1,845	6	4	3	By Amount c/d	2,823	13	11
	„ Cash	978	7	7					
		2,823	13	11			2,823	13	11
4	To Amount b/d	2,823	13	11	4	By Amount c/d	3,841	4	2
	„ Cash	1,017	10	3					
		3,841	4	2			3,841	4	2
5	To Amount b/d	3,841	4	2	5	By Amount c/d	4,899	8	6
	„ Cash	1,058	4	4					
		4,899	8	6			4,899	8	6
6	To Amount b/d	4,899	8	6	6	By Cash	6,000	–	–
	„ Cash	1,100	11	6					
		6,000	–	–			6,000	–	–

[1] This might naturally be in *several* investments instead of in *one* as it is here stated.

At the end of the period the procedure will be as follows :—

(1) The Investments will be realised, and the proceeds debited to Cash and credited to the Investment Account, thus closing it.

(2) The Debentures will be paid off out of the proceeds of the Investments, Cash being credited and the Debentures Account debited. The latter account will thus be closed.

(3) The accumulated profits, as per the Debenture Redemption Fund Account, will be transferred to Reserve Account, and will be available as profit, though, of course, not in cash.

QUESTIONS ON CHAPTER XXIV

1. Explain briefly the treatment of bonus shares ?
2. In what ways may capital be reduced in a limited company ?
3. In what different ways may Debentures be redeemed ?
4. Explain briefly the procedure at the end of the period when Debentures are redeemed by means of a Sinking Fund.

EXERCISE XXIV

1. On account of heavy losses the Directors of a Limited Company obtain power to reduce the capital from 100,000 shares of £1 each, 10s. per share paid up, to 100,000 shares of 5s. each fully paid. State what entries in the financial books are necessary to give effect to this.—(*National Union of Teachers.*)

2. The following is the Balance Sheet of The Blank Company, Limited, as on December 31st :—

BALANCE SHEET

CAPITAL.	£	£		
Nominal—				
100,000 Preference Shares of £1 each	100,000			
100,000 Ordinary Shares of £1 each	100,000			
	£200,000			
Issued—				
74,720 Preference Shares of £1 each fully paid.	74,720			
42,633 Ordinary Shares of £1 each fully paid.	42,633			
		117,353		
Sundry Creditors		14,000		
Bank Overdraft		1,328		
		£132,681		£132,681
			Patents A/c at cost	£114,663
			Leasehold Works A/c	3,820
			Machinery and Plant A/c	4,120
			Sundry Debtors	1,241
			Stock on hand	4,921
			Advertising Suspense A/c	2,000
			Preliminary Expenses A/c	406
			Profit and Loss A/c	1,482
			Cash in hand	28

The Company proved unsuccessful, and resolutions were passed to carry out the following scheme of reconstruction : (1) That the £1 Preference Shares be reduced to an equal number of fully paid shares of 10s. each. (2) That the £1 Ordinary Shares be reduced to an equal number of fully paid shares of 6s. 8d. each. (3) That the amount thus rendered available

for the reduction of the assets be apportioned as follows: The Preliminary Expenses Account, Profit and Loss Account, and Advertising Suspense Account, to be written off entirely; £1,200 to be written off the Leasehold Works Account; £1,400 to be written off the Stock Account; 20 per cent. Depreciation to be written off the Machinery and Plant Account, and the balance available to be written off the Patents Account. Prepare a Balance Sheet giving effect to these proposals.—(*London Chamber of Commerce.*)

3. A Company, with a paid-up capital of £200,000 in £1 shares, having accumulated a Reserve of £60,000, resolves to capitalise £40,000 of it by issuing to the shareholders 40,000 bonus shares of £1 each fully paid, each shareholder to receive one bonus share for every five shares held in the Company. Make the Journal entries required to record the transaction.

4. A Company with a nominal and issued capital of £150,000 in £1 shares 15s. per share paid, declares a bonus, out of the Reserve Fund, at the rate of 33⅓% on the paid-up capital, with the object of making the shares fully paid. Make the Journal entries required to record the transaction.

5. A Company borrowed £18,000 on Debentures, at a discount of 5%, repayable *at par* at the end of ten years, and decides to provide for redemption by means of an annual Sinking Fund at 5% compound interest. Show the subsidiary book entries, the Ledger accounts affected, and explain the procedure at the end of the period.

6. A Limited Company has a balance of £10,500 at the credit of its Profit and Loss Account, and instead of declaring a dividend, it resolves to use the profits to pay off £10,000 Debentures, now due, at a premium of 5%. Make the necessary Journal and Cash Book entries and show the Ledger Accounts affected.

7. A Limited Company issued £15,000 Debentures at a discount of 5%, repayable *at par* by annual drawings of £1,875. Show the Cash Book and the Ledger Accounts affected.

8. A Limited Company has power under its Articles of Association to apply its profits to the purchase of its Debenture Stock in the open market and to cancel same. The amount standing to the credit of Profit and Loss is £8,500 and to the credit of Debenture Stock Account £32,000. The Company's bank balance is £1,800, and the directors decide to expend £8,500 of it in purchasing and cancelling further Stock, the market price of which, inclusive of all charges, is 93%. Show the Ledger Accounts, etc., affected.

REVISION EXERCISE XXIV

1. George Dixon, a shareholder in Rayon D'Or, Limited, had applied for, and was allotted, 200 Ordinary Shares of £1 each. He duly paid 5s. per share on application and 5s. per share on allotment, in accordance with the conditions of the issue. A call of 5s. per share was made by the directors, and was payable on 1st August, but all applications for the amount due from him were ignored by George Dixon. Under the provisions of the Articles of Association, the shares were forfeited by Resolution of the directors on 31st December. Give the entries, recording the above transaction, which would appear in the books and accounts of the Company.—(*Royal Society of Arts, Accounting.*)

2. Explain, briefly, the meanings of the undermentioned terms as applied to Assurance companies:—

Quinquennial Valuation. Loading. Half-credit Policy. Industrial Policy. Re-Assurances. Bonus.

If any of the above items would affect the annual accounts, explain, briefly, where they would appear.—(*Royal Society of Arts, Accounting.*)

3. Under what Act is "Super-tax" imposed, and by whom is the tax assessed?

The annual Profit and Loss Accounts of the business of George MacArthur showed the following profits: (1) £7,200; (2) £6,500; (3) £5,800. These profits were arrived at prior to making any provision for depreciation, for which an allowance of £250 was made by the Surveyor in each of the above-named years.

He was insured with the Universal Life Assurance Company at an annual premium of £450. His private income consisted of: Dividends from Investments, £1,200; Rents from House Property, £600; and Interest on Loan on Mortgage, £350. This income is stated gross in each case.

Prepare George MacArthur's Return for Super-tax for the current year. —(*Royal Society of Arts, Accounting.*)

4. The following represent the balances of the London books of the Eastern Company, Ltd., as on 31st December, viz.:—

Share Capital (70,000 shares of £1 each, fully paid)	£70,000	Reserve for Doubtful Debts	£100
Bills Payable	5,500	Creditors	5,000
Bills Receivable	2,000	Payments in Advance	500
Investments at cost	14,000	Properties	25,000
General Reserves	8,000	Profit and Loss. *Dr.*	21,200
Stocks on hand	600	Rangoon A/c	18,760
Debtors	3,000	Cash at Bank	3,500
		Cash in hand	40

Bills Receivable aggregating £4,000 were under discount.

The following statement of Assets and Liabilities at 31st December was received from the manager of the Company's Rangoon Branch, viz.:—

	Rs.	*a.*	*p.*		*Rs.*	*a.*	*p.*
Cash at Bankers	185,372	5	–	Buildings, Plant, etc.	46,280	12	–
Cash in hand	19,269	8	–	Debtors	87,963	13	6
London A/c (£17,938 1s. 10d.)	269,071	6	–	Payments in Advance	3,000	–	–
General Reserves	75,284	14	–	Reserve for Doubtful Debts	2,000	–	–
Stocks on hand	327,595	3	–	Creditors	548,125	5	–
Advances to Natives against security	225,000	–	–				

The apparent difference, between the balance of the Rangoon Account in the London Books and the London Account in the Rangoon Books, consists of items in transit. You are required to prepare an amalgamated Balance Sheet as at 31st December.

The rupee to be taken at 1s. 4d. (16 annas = 1 rupee, 12 pies = 1 anna). —(*Chartered Accountants.*)

5. Messrs. Crane, Derrick & Co., Ltd., Railway and General Contractors, whose head offices and works are at Porthampton, are engaged on two large contracts as follows:—

No. 1 Contract. Light Railway for the New Forest Light Railway Co., Ltd., at a contract price of £150,000.

No. 2 Contract. New Hotel for the Sussex Development Co., Ltd., at a contract price of £210,000.

No. 1 Contract was commence in January, and

No. 2 Contract in March.

On 31st December the following balances stood in the books of the Company in respect of these contracts:—

No. 1 Contract.	Plant and Machinery .	£5,000	
,,	Purchases . . .	30,000	
,,	Wages and Salaries .	43,000	
,,	Sundry Expenses . .	2,500	
,,	Cash received on account		£60,000
No. 2 Contract.	Plant and Machinery .	3,500	
,,	Purchases . . .	80,000	
,,	Wages and Salaries .	56,000	
,,	Sundry Expenses . .	1,500	
,,	Cash received on account		£120,000

The value of materials on hand and work finished but not certified for was as follows: No. 1 Contract, £2,500; No. 2 Contract, £6,500. In the case of No. 1 Contract, 80% of the amounts certified for was paid to the contractors, the remaining 20% being retained until completion. In the case of No. 2 Contract the retentions amounted to £22,500.

Make out accounts in respect of each contract. Deal with the Plant and Machinery employed on the contracts in the way you consider best, stating your reason. Show the profit earned in respect of each contract, and say what you consider the Company would be justified in carrying to Profit and Loss Account in respect of them on 31st December.—(*Chartered Accountants*)

6. The X Mining Co., Ltd., having its registered office in London, remitted to its manager in West Australia during the year the sum of £5,000. At the end of the year it received from its manager returns showing expenditure as follows: Wages on Development £1,000, Wages on Mining and Milling £1,200, Salaries £500, Stores £1,500, Sundry Expenses £200. During the year stores to the amount of £500 had been used chargeable against development, and £700 chargeable against mining and milling. Bullion sold had produced £2,400, and the estimated amount of bullion unsold was £500. Show the Journal entries in the Head Office books.—(*Chartered Institute of Secretaries.*)

7. The Wayside Boot Co., Ltd., was registered with a nominal capital of £50,000, divided into 10,000 Preference Shares of £1 each, and 800,000 Ordinary Shares of 1s. each.

On 31st December, a Trial Balance, containing the following Balances, was extracted from the books of the Company:—

	£	s.	d.		£	s.	d.
Ordinary Share Capital A/c . . .	35,820	–	–	Bank Charges . .	17	–	–
Preference Share Capital A/c . .	10,000	–	–	Company's contribution to the Pension Fund . . .	500	–	–
Pension Fund . .	4,980	–	–	Bonus paid to employees . .	763	–	–
Goodwill A/c . .	5,000	–	–	Gas, Electricity, and Water . . .	1,567	–	–
Debenture Capital (100 5% Debentures of £50 each) . .	5,000	–	–	Manager's Salary .	1,500	–	–
Pension Fund Investments . . .	4,540	–	–	Purchases . .	97,651	–	–
Stable Expenses .	421	–	–	Purchases Returns .	1,243	–	–
Machinery and Plant A/c . . .	7,455	–	–	Interest paid on Debentures . .	238	10	–
Transfer Fees received	1	10	–	Directors' Fees. . .	250	–	–
General Expenses .	939	–	–	Boxes and Packing .	674	–	–
Cost of Trade Catalogues . . .	256	–	–	Bills Payable . .	2,162	–	–
				Discounts Allowed .	1,251	–	–
				Discounts Received .	1.978	–	–

	£	s.	d.
Sales	131,276	–	–
Sales Returns	946	–	–
Carriage	3,460	–	–
Stock in hand (1st January)—			
Finished goods	11,264	–	–
Materials and unfinished goods	8,457	–	–
Cost of Repairs to Machinery and Plant	293	–	–
Debtors as per Sales Ledger	16,245	–	–
Creditors as per Bought Ledger	11,747	–	–
Bad Debts written off	315	–	–
Factory Wages	7,299	–	–
Postage and Stationery	444	–	–
Horses and Vans	946	–	–
Audit Fee and Legal Charges	274	–	–
Rent, Rates, Taxes and Insurance	1,173	–	–
Office Salaries	4,216	–	–
Bills Receivable	1,931	–	–
Advertising	470	–	–
Freehold Land and Buildings	18,442	–	–
Cash at Bank	3,259	–	–
„ „ (Pension Fund)	440	–	–
Cash in hand	75	–	–
Profit and Loss A/c (Debit Balance, brought forward from last year)	1,236	–	–

Before closing the books, the following adjustments are necessary :—

1. One month's carriage is owing and has not been passed through the books £472
2. Rent due to landlord but not provided for . . . 150
3. Value of Unexpired Insurance Premium . . . 197
4. Wages paid in advance 84
5. Reserve to be created for Bad Debts 750
6. Write off the following depreciations :—
   (*a*) Machinery and Plant . 10%
   (*b*) Horses and Vans . . £146
   (*c*) Land and Buildings . . 2½%

The stock as on 31st December was valued as follows :—

Finished Goods £13,241
Raw materials and unfinished goods £5,192

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, and a Balance Sheet as on that date. —(*London Chamber of Commerce.*)

CHAPTER XXV

AMALGAMATION, RECONSTRUCTION, AND RE-ORGANISATION OF LIMITED COMPANIES

Amalgamation.—Of recent years there has been an increasing tendency for companies engaged in the same or similar classes of business to combine and amalgamate, the objective being to effect economies by eliminating wasteful duplication of expenditure and also to decrease the risk of competition. Many different methods are adopted, varying according to circumstances and the wishes of the directors and/or shareholders of the companies concerned.

The principal forms of amalgamation may be described thus—

(1) *Formation and promotion of a new (purchasing) company* to take over the assets, etc., of two or more existing companies, the latter being wound up on completion of the transfer. Alternatively, the new company may become a "holding company," *i.e.*, it acquires and holds the shares of the existing companies who retain their separate existence.

(2) *Amalgamation by absorption,* where one existing company purchases and takes over the entire business of another company, and the latter is wound up.

(3) *Amalgamation by the acquirement of a controlling interest,* where one company purchases not less than three-fourths of the issued capital of another company, and both companies retain their separate existence.

AMALGAMATION BY FORMATION OF A NEW COMPANY; THE OLD COMPANIES BEING WOUND-UP

A striking example of this method of amalgamation was the combination into four distinct groups of the railways of Great Britain, each group consisting of several companies whose assets were transferred to one new company. The old companies ceased to exist and the new company issued fresh stock certificates to the shareholders of the old companies in accordance with the terms arranged.

In the amalgamation of limited companies, it is necessary first to obtain the shareholders' sanction to the scheme of amalgamation and the sale of the assets to the new company; and then to appoint liquidators whose duty it is (1) to carry the scheme into effect, and (2) to wind up the vendor companies. The liquidators, however, really act as the vendor to the new company, from whom they receive the purchase consideration (usually fully-paid shares

of the new company, but sometimes partly cash and partly shares or debentures). The cash and/or shares, etc., is distributed to the shareholders of the old companies.

Closing the Books of the Old Companies.—The precise procedure varies in accordance with the terms arranged for the transfer of the old companies' businesses, *e.g.*, whether the new company takes over the cash as well as the other assets and discharges the liabilities, etc., or otherwise. The following formula, which is expressed in general terms, may be found useful.

(1) Open a Business Realisation Account, debiting this account with the assets taken over and crediting it with the liabilities transferred. The contra entries appear in the various assets and liabilities accounts, which are now closed.

(2) Debit the new company and credit Business Realisation Account, the balance of the latter account being transferred to a Sundry Shareholders' Account. A credit balance indicates a profit on realisation, whilst a debit balance represents a loss. In some cases, however, the net assets are taken over at the book values and thus neither a profit nor a loss occurs.

(3) Open a Shares Account, debiting it with the value of the shares received from the new company. If the purchase consideration includes cash or debentures, additional accounts are opened as may be required.

(4) Debit the Sundry Shareholders' Account with the amount of shares, debentures or cash distributed to the shareholders and credit Shares, Debentures or Cash Account, as the case may be.

(5) Close the Share Capital Account, Reserve Account (if any), and Profit and Loss Account by transfer to the Sundry Shareholders' Account.

(6) Where the old company retains its cash balance, discharges its liabilities and pays its own expenses, these transactions are passed through the cash account, the expenses incurred being debited to the Realisation Account.

Fractional Certificates.—Occasionally the allotment of shares in the new company involves the issue of fractional certificates. For example, the Batcedo Co. issues 200,000 shares of £1 each as purchase consideration to the Bat Co., whose issued capital is £150,000 only and, therefore, four shares in the new company are issued in exchange for three shares of the old company. Thus a shareholder owning ten shares is entitled to $10 \times \frac{4}{3} = 13\frac{1}{3}$ shares in the new company. Two methods are available for dealing with the fractional parts, viz.:—

(1) Fractional certificates are issued and shareholders must either sell them or buy additional fractional certificates to make up a whole share. Upon surrender of the requisite fractional certificates, a complete share is allotted and issued.

(2) The company sells sufficient shares to represent the total fractional parts and distributes the proceeds to the members entitled thereto.

Fractional parts of a share may also arise under reconstruction schemes or schemes for the reorganisation of the share capital and are dealt with as outlined above.

DISTRIBUTION OF SHARES, ETC., TO THE OLD SHAREHOLDERS

The liquidators of the old companies prepare a Share Distribution List, showing the names and addresses of the old shareholders, and particulars of their shareholding in the old and new companies. If fractional certificates are involved, or if the purchase

SHARE DISTRIBUTION LIST

LEFT-HAND RULING.

Old Share Led. Fo.	Name.		Address and Occupation.	Shares in Old Company.			
	Surname.	Christian Names.		Old Cert. No.	No. of Shares.	Distinctive Numbers.	
						From	To

RIGHT-HAND RULING.

Shares in New Company.				New Share Led. Fo.	Cash Payment.				Remarks.
New Cert. No.	No. of Shares.	Distinctive Numbers.			Chq. No.	Amount.			
		From	To			£	s.	d.	

consideration includes the issue of debentures or a cash payment to the old shareholders, additional columns must be provided for these particulars. A duplicate of this list is handed to the new company and forms the basis of the allotment and entries in the new share registers, etc.

New Company's Books.—The entries to be made in the new company's books are as follows:—

(1) Debit each asset account, including goodwill, and credit Business Purchase Account, with the total.

(2) Debit Business Purchase Account with the total of the liabilities taken over and credit the separate liability accounts.

(3) Debit Business Purchase Account and credit the liquidators of the vendor companies with the agreed purchase price.

(4) Debit the liquidators of the vendor company with the total allotment of shares, debentures, or cash paid (as the case may be) in satisfaction of the purchase price.

(5) Where the new company obtains the benefit of any reserves or undivided profits, the Business Purchase Account will show a credit balance as the total value of the assets transferred will be in excess of the combined total of the liabilities and purchase price. This balance should be transferred to the credit of a Capital Reserve Account; it is not permissible to use it for revenue purposes. Payments for liquidation or preliminary expenses in connection with the acquirement of the business may be debited to this account and the balance utilised for the reduction of goodwill.

(6) If the combined total of the liabilities taken over and the purchase price is in excess of the total value of the assets, the difference is debited to Goodwill.

(7) In some cases the new company makes a further capital issue to provide additional working capital. The entries required for such issue will be identical with the entries for new companies discussed in Chapter XII.

Example.—The Bat Co., Ltd., and the Cedo Co., Ltd., agree to combine and form a new company under the title of the Batcedo Co., Ltd., with a capital of £300,000 in £1 shares to acquire their businesses. The sale contract provides that the new company is to take over the whole of the assets and liabilities of both companies, the consideration being the issue to the Bat Co. of £200,000 and to the Cedo Co. of £75,000 in fully-paid £1 shares, the latter company also to receive £7,500 in cash.

The new company is to pay the liquidation expenses of the Bat Co. (£900) and Cedo Co. (£600), and its own formation expenses of £1,800, these amounts to be charged against the Capital Reserve Account.

The balances in the books of the vendor companies at the date of the amalgamation were as shown at the top of the next page.

	Bat Co.		Cedo Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Share Capital		150,000		75,000
Goodwill	25,000		10,000	
Freehold and Leasehold Property	95,600		45,280	
Plant and Machinery	35,250		21,560	
Stock-in-Trade	18,760		12,685	
Sundry Debtors	12,655		6,525	
Sundry Creditors		8,620		5,680
Mortgage on Property				10,000
Bank Balances	27,605		3,130	
Reserve Account		50,000		5,000
Profit and Loss Balances		6,250		3,500
	£214,870	£214,870	£99,180	£99,180

Assume that the amalgamation was duly completed and the mortgage paid off. Prepare (1) the liquidators' closing accounts for the old companies, and (2) the opening accounts and the first balance sheet of the new company.

Books of the Bat Co., Ltd.

The principal ledger accounts are as follows :—

Dr. BUSINESS REALISATION ACCOUNT. *Cr.*

	£	s.	d.		£	s.	d.
To Sundry Assets	214,870	–	–	By Creditors	8,620	–	–
				„ Batcedo Co.	200,000	–	–
				„ Sundry Shareholders (Balance written off)	6,250	–	–
	£ 214,870	–	–		£ 214,870	–	–

Dr. BATCEDO CO., LTD. *Cr.*

To Business Realisation A/c (Agreed purchase price)	200,000	–	–	By Shares A/c	200,000	–	–

Dr. SHARES ACCOUNT. *Cr.*

To Batcedo Co., Ltd. (Shares received)	200,000	–	–	By Sundry Shareholders (Distribution of shares)	200,000	–	–

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

To Sundry Shareholders .	150,000	–	–	By Balance b/f . .	150,000	–	–

Dr. RESERVE ACCOUNT. *Cr.*

To Sundry Shareholders .	50,000	–	–	By Balance b/f . .	50,000	–	–

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Sundry Shareholders .	6,250	–	–	By Balance b/f . .	6,250	–	–

Dr. SUNDRY SHAREHOLDERS. *Cr.*

To Shares Distributed .	200,000	–	–	By Capital A/c . .	150,000	–	–
„ Business Realisation A/c . . .	6,250	–	–	„ Reserve A/c . .	50,000	–	–
				„ Profit and Loss . .	6,250	–	–
£	206,250	–	–	£	206,250	–	–

Books of the Cedo Co., Ltd.

Dr. BUSINESS REALISATION ACCOUNT. *Cr.*

To Sundry Assets . .	99,180	–	–	By Creditors . . .	5,680	–	–
				„ Morgtage . . .	10,000	–	–
				„ Batcedo Co., Ltd. .	82,500	–	–
				„ Sundry Shareholders .	1,000	–	–
£	99,180	–	–	£	99,180	–	–

Dr. MORTGAGE ACCOUNT. *Cr.*

To Business Realisation A/c . . .	10,000	–	–	By Balance b/f . .	10,000	–	–

Dr. BATCEDO CO., LTD. *Cr.*

To Business Realisation A/c . . . (Agreed purchase price)	82,500	–	–	By Shares	75,000	–	–
				„ Cash	7,500	–	–
£	82,500	–	–	£	82,500	–	–

Dr. SHARES ACCOUNT. *Cr.*

To Batcedo Co., Ltd. . (Shares received)	75,000	–	–	By Sundry Shareholders . (Distribution of shares)	75,000	–	–

Dr. SHARE CAPITAL ACCOUNT. *Cr.*

To Sundry Shareholders .	75,000	–	–	By Balance b/f . .	75,000	–	–

Dr. RESERVE ACCOUNT. *Cr.*

To Sundry Shareholders .	5,000	–	–	By Balance b/f . .	5,000	–	–

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Sundry Shareholders .	3,500	–	–	By Balance b/f . .	3,500	–	–

Dr. SUNDRY SHAREHOLDERS. *Cr.*

To Shares Distributed .	75,000	–	–	By Capital A/c . .	75,000	–	–
„ Cash „ .	7,500	–	–	„ Reserve A/c . .	5,000	–	–
„ Business Realisation A/c . . .	1,000	–	–	„ Profit and Loss . .	3,500	–	–
£	83,500	–	–	£	83,500	–	–

Books of the Batcedo Co., Ltd.

Dr. LIQUIDATOR OF THE BAT CO., LTD. *Cr.*

To Creditors (liabilities taken over) . .	8,620	–	–	By Sundry Assets . .	214,870	–	–
„ Shares Issued in Payment of Purchase .	200,000	–	–				
„ Balance Transferred to Reserve . .	6,250	–	–				
£	214,870	–	–	£	214,870	–	–

Dr. LIQUIDATOR OF THE CEDO CO., LTD. *Cr.*

To Creditors (liabilities taken over) . .	5,680	–	–	By Sundry Assets . .	99,180	–	–
„ Cash—Mortgage paid off	10,000	–	–				
„ Shares Issued in Part Payment . .	75,000	–	–				
„ Cash—Balance of Purchase Price . .	7,500	–	–				
„ Balance transferred to Reserve . . .	1,000	–	–				
£	99,180	–	–	£	99,180	–	–

Dr. SHARE CAPITAL ACCOUNT. Cr.

					By Bat Co.		200,000	– –
					„ Cedo Co.		75,000	– –
						£	275,000	– –

Dr. CAPITAL RESERVE ACCOUNT. Cr.

To Cash—Bat Liquidation Expenses		900	–	–	By Bat Co.		6,250	– –
„ „ Cedo Liquidation Expenses.		600	–	–	„ Cedo Co.		1,000	– –
„ „ Preliminary Expenses		1,800	–	–				
„ Balance c/d		3,950	–	–				
	£	7,250	–	–		£	7,250	– –
					By Balance b/d		3,950	– –

Dr. CASH ACCOUNT. Cr.

To Cash transferred from Bat Co.		27,605	–	–	By Cedo Co., Mortgage paid off		10,000	– –
„ Cedo Co.		3,130	–	–	„ Cedo Co., Balance of Purchase Price		7,500	– –
					„ Liquidation Expenses, Bat Co.		900	– –
					Cedo Co.		600	– –
					„ Preliminary Expenses.		1,800	– –
					„ Balance c/d		9,935	– –
	£	30,735	–	–		£	30,735	– –
To Balance b/d		9,935	–	–				

BALANCE SHEET OF THE BATCEDO CO., LTD.

Liabilities.					*Assets.*			
Nominal Share Capital, 300,000 Shares of £1 each		300,000	–	–	Goodwill		35,000	– –
					Freehold and Leasehold Property		140,880	– –
Issued Share Capital: 275,000 Shares of £1 each, fully paid		275,000	–	–	Plant and Machinery		56,810	– –
Capital Reserve A/c		3,950	–	–	Stock-in-Trade		31,445	– –
Sundry Creditors		14,300	–	–	Sundry Debtors		19,180	– –
					Cash		9,935	– –
	£	293,250	–	–		£	293,250	– –

Amalgamation by Formation of a "Holding Company."—This method is a variation of the preceding one; the old companies continue their separate existence, and the new company either—

(1) Purchases the shares of the old companies for cash, in which case the entries required are a debit to Investment Account and a credit to cash for the amount paid for the shares; or

(2) Allots and issues its own shares in exchange for the shares of the old companies. By this method, the entries required are

a debit to Investment Account and a credit to Share Capital Account.

Whichever method is adopted, the financial books of the old companies are not affected; all that occurs is a change of shareholders, and this change is effected by the execution of transfer deeds in the usual manner; the entries recording the transfers being made in the Register of Transfers and Share Ledger.

The new "holding" company makes a public issue of capital to provide itself with the necessary funds; the financial books recording this issue being written up in the ordinary way. Nominally, the assets of the new company consist of shares in the old companies, but in reality the "holding" company is the absolute owner of the old companies' businesses.

Amalgamation by Absorption.—Where one company acquires the business of another, the latter company going into liquidation and its separate existence being terminated, the transaction is described as "amalgamation by absorption." Usually, the purchasing company acquires the entire undertaking, *i.e.*, it takes over the whole of the assets and also discharges the liabilities, but in some cases only the assets are transferred, the liabilities being paid by the vendor company.

A practical point which arises for consideration is that the vendor company's business may be a valuable one and the sale consequently results in a profit to the shareholders, such profit arising (1) from a higher price being paid for Goodwill than the amount at which it stands in the company's books, (2) the reserves being no longer required, and (3) the market value of the purchasing company's shares (which form part of the sale consideration) being greater than their nominal value. In some cases, the market price of the shares may be at a discount, but as this probably will be taken into consideration when fixing the purchase price for the absorbed company's business, the absorption may still show a profit to the shareholders. In order to show the transaction in its true aspects, the vendor company should pass the shares received through its books at their market value.

With the purchasing company, however, different considerations arise and the shares issued in payment (or part payment) must be dealt with on the basis of their nominal value. Thus, if company A, whose £1 shares stand at a premium of 10s. per share, purchases the undertaking of company B for £150,000, payable in fully-paid £1 shares, and the net assets acquired (*i.e.*, the excess of total assets over liabilities) are valued at £230,000, the purchasing company apparently makes a profit of £80,000, as it acquires assets worth that amount in excess of the purchase price. The real effect of the transaction, however, is that company A issues shares of the total nominal value of £150,000 at a premium of £80,000, and the

latter amount must be credited to a Premium on Shares Account. The true intrinsic value of a share is not its nominal value but its market value, *i.e.*, the price at which it may be bought or sold; and it will be seen that the shareholders of the vendor company receive, approximately, the true value of the assets transferred.

Generally, the purchase price is fixed after a detailed valuation of the assets and liabilities has been agreed upon but, in some cases, the practice obtains of settling the purchase price on the basis of the market value of the vendor company's shares. For example, if company C, whose shares stand at 5s. per share premium, has an issued capital of £80,000, this indicates that the market estimates the total value of the net assets, in round figures, at £100,000. Now, if the undertaking is absorbed by company D on this basis, the purchase price payable is £100,000, whatever the book value of the assets may be. Usually they are somewhat less, and the purchasing company must revalue the assets and make the necessary adjustments. Floating assets and liabilities must appear at their actual value, whilst the surplus of the purchase price over the book value of the remaining assets is attributable either (1) to an increase in value of some of the fixed assets (land, property, etc.), or (2) to the value of the goodwill.

Example.—The Balance Sheet of the Dale Co., Ltd., at 31st December, 19.... is as follows:—

Liabilities.	£	*Assets.*	£
Capital		Land and Buildings	75,000
120,000 shares of £1 each, fully paid	120,000	Plant and Machinery	36,450
Reserve Fund	60,000	Stock-in-Trade	45,575
Sundry Creditors	21,250	Sundry Debtors	38,250
Profit and Loss A/c, Balance at Credit	6,528	Cash at Bankers	12,380
		Cash in Hand	123
	£207,778		£207,778

The entire undertaking is acquired—as on the above date—by the Somerton Co., Ltd., the agreed purchase consideration being the payment in cash of £100,000 and the allotment of two fully paid £1 shares (market value 25s. per share) of the Somerton Co. in exchange for each three shares of the Dale Co. The liquidation expenses of the vendor company amount to £1,500, the balance of the cash consideration being distributed *pro rata* amongst the shareholders.

Close the books of the vendor company and show the opening entries in the books of the purchasing company to record the acquisition of the business.

Books of the Dale Co., Ltd.

JOURNAL.

		£	£
Realisation Account	*Dr.*	207,708	
To Sundry Assets			207,708
being total value of assets acquired.			
Sundry Creditors	*Dr.*	21,250	
To Realisation Account			21,250
being amount of liabilities taken over.			
Somerton Co., Ltd.	*Dr.*	200,000	
To Realisation Account			200,000
being agreed purchase price.			
Shares Account	*Dr.*	100,000	
Cash Account	,,	100,000	
To Somerton Co., Ltd.			200,000
being payment of purchase consideration; £100,000 in cash and 80,000 shares of £1 each fully paid, valued at 25s. per share.			
Realisation Account	*Dr.*	1,500	
To Cash			1,500
being payment of liquidation expenses.			
Share Capital Account	*Dr.*	120,000	
Reserve Fund	,,	60,000	
Profit and Loss Account	,,	6,528	
To Sundry Shareholders			186,528
being transfer of balances.			
Business Realisation Account	*Dr.*	11,972	
To Sundry Shareholders			11,972
being transfer of profit on realisation.			
Sundry Shareholders	*Dr.*	198,500	
To Shares			100,000
To Cash			98,500
being distribution of 16s. 8d. in the £ in shares and 16s. 5d. in the £ in cash.			

The two principal ledger accounts are as follows :—

Dr. REALISATION ACCOUNT. *Cr.*

	£		£
To Sundry Assets	207,778	By Creditors	21,250
,, Liquidation Expenses	1,500	,, Somerton Co.	200,000
,, Transfer to Sundry Shareholders	11,972		
	£221,250		£221,250

Dr. SUNDRY SHAREHOLDERS. *Cr.*

	£		£
To Shares . . , 80,000 £1 shares at 25s. . .	100,000	By Share Capital	120,000
		,, Reserve Fund	60,000
		,, Profit and Loss	6,528
,, Cash . . .	98,500	,, Realisation Account .	11,972
	£198,500		£198,500

Books of the Somerton Co., Ltd.

JOURNAL.

		£	£
Land and Buildings	*Dr.*	75,000	
Plant and Machinery	,,	36,450	
Stock-in-Trade	,,	45,575	
Sundry Debtors	,,	38,250	
Cash at Bankers	,,	12,380	
Cash in Hand	,,	123	
To Liquidator of the Dale Co., Ltd. . being value of assets acquired.			207,778
Liquidator of the Dale Co., Ltd.	*Dr.*	21,250	
To Sundry Creditors . . . . being liabilities taken over.			21,250
Liquidator of the Dale Co., Ltd.	*Dr.*	186,528	
To Share Capital Account . . . being allotment of 80,000 shares of £1 each, fully paid.			80,000
To Cash			100,000
,, Premium on Shares Account . . being excess value of the net assets over the nominal value of shares and cash paid.			6,528

The Ledger Account for the liquidator of the Dale Co. will appear as follows:—

Dr. LIQUIDATOR OF THE DALE CO., LTD. *Cr.*

	£		£
To Sundry Creditors . .	21,250	By Sundry Assets	207,778
,, Share Capital .	80,000		
,, Cash . .	100,000		
,, Premium on Shares . .	6,528		
	£207,778		£207,778

Amalgamation by the Acquirement of a Controlling Interest.—Under this form of amalgamation, an existing company purchases a sufficient number of shares of another company so as to obtain a controlling interest in the latter concern ; the shares being acquired either by agreement with the shareholders or by purchase in the open market. The Companies (Consolidation) Act, 1908, provides that a three-fourths majority of the shareholders, present either personally or by proxy at an extraordinary general meeting, is needed to pass certain resolutions effecting any important alterations in the constitution—or the regulations—of the Company. (*See* Resolutions, page 375.) To ensure effective control, therefore, the shares acquired must be not less than three-fourths of the issued capital.

The entries required in the books of the purchasing company are a debit to Investment Account (Shares in . . . Co., Ltd.) and a credit to cash for the cost of the shares purchased ; the investment appearing as an asset in the Balance Sheet. The financial books of the company whose shares are purchased are not affected ; all that occurs is a change of shareholders, the new shareholders being either the purchasing company itself or its nominees and the only entries made are in the Transfer Register and the Share Ledger recording the transfer of the shares.

Both companies continue their separate existence, but usually the purchasing company nominates, wholly or partially, a fresh directorate and thus obtains control over the other company's activities.

Reconstruction.—The term " Reconstruction " is commonly used to describe a scheme under which a company goes into liquidation for the express purpose of selling its assets to a new company for partly paid shares carrying a further liability. Usually the liquidating company has exhausted its working capital and, by means of such a scheme, the company is re-constructed and reconstituted so as to form a new company with precisely the same objects, the same or a similar name, and composed of the same shareholders, who are called upon to provide additional working capital.

Reconstruction schemes, however, may also be initiated for the purpose of (1) widening the company's sphere of operations by enlarging the powers contained in its memorandum of association, (2) changing the domicile of the company, *e.g.*, a Scottish company registered at Edinburgh wishing to become an English company with a London registration, or (3) carrying into effect a compromise (under section 120 of the Companies (Consolidation) Act, 1908), with its creditors and/or members, by which the creditors will accept shares or debentures in satisfaction of their debts. But in most cases, reconstruction schemes are prepared under the authority

of section 192 of the Companies Act, 1908, and, by this section, dissentient shareholders may require the liquidator either to abstain from carrying the reconstruction scheme into effect or to purchase their interest at a price to be determined by arbitration; provided that such shareholders did not vote for the special resolutions sanctioning the scheme at either of the general meetings held for that purpose and expressed their dissent in writing to the liquidator within seven days after the confirmation of the resolution.

The term "reconstruction" is also used in connection with schemes for reduction of capital; this phase of the subject is dealt with in Chapter XXIV.

Entries in the Books.—The entries in the financial books of the old company are similar to those for the liquidation of a vendor company in an amalgamation. For the new company, the entries are upon the same lines as for a new company acquiring a vendor's business in exchange for shares credited as fully- or partly-paid.

When partly-paid shares are issued the entries for the additional capital called up are made in the ordinary manner. (*See* Call Accounts, page 388, and Call Books, page 487.)

Reorganisation.—This term is generally used to denote the re-arrangement of a company's share capital either by the consolidation of shares of different classes or by the subdivision of the shares into different classes. Simple consolidation of shares and their division into shares of larger amount than existing shares or the subdivision of shares into shares of smaller amount may be effected under section 41 of the Companies Act, 1908, but more extensive re-arrangements of share capital must be made under section 45.

Where the re-arrangements involve the revision of preferential or deferred rights possessed by certain classes of shareholders, such revision must be sanctioned by the shareholders and subsequently confirmed by the Court in the manner provided for by section 45 of the 1908 Act.

Reorganisation Differs from Reconstruction in that the latter usually involves the liquidation and winding-up of the original company, a new company taking over its entire undertaking, whilst reorganisation does not involve liquidation, the company continuing its separate existence with a re-arrangement of its capital and possibly the revision of the rights of different classes of shareholders.

Entries in the Books.—In most cases the only entries required are the closure of the old share capital accounts and the opening of new accounts to correspond with the revised capital. For example, a company has issued 100,000 Ordinary Shares of £1 each and it decides to divide these shares into two classes, viz., 50,000 Preferred Ordinary Shares of £1 each (with prior rights as

to dividend and return of capital in a winding-up) and 50,000 Deferred Ordinary Shares of £1 each. The journal entry to record this re-arrangement will be as follows :—

	£	£
Ordinary Share Capital Account *Dr.*	100,000	
To Preferred Ordinary Share Capital A/c		50,000
„ Deferred Ordinary Share Capital A/c		50,000
being the division of the company's paid-up share capital into two classes in accordance with special resolution passed and confirmed on ..... 19....		

Share Conversion List.—The members' accounts in the Share Ledger for the Ordinary Shares are closed and new accounts opened for the Preferred and Deferred Ordinary Shares. To facilitate the entries in the new share ledgers and the exchange of the old share certificates for the new certificates, a share conversion list is compiled in the following or similar manner.

SHARE CONVERSION LIST.

LEFT-HAND RULING.

Old Share Led. Fo.	Name.		Address and Occupation.	Old Ordinary Shares.			
	Surname.	Christian Name.		Old Cert. No.	No. of Shares.	Distinctive Numbers. From	To

RIGHT-HAND RULING.

New Preferred Ordinary Shares.				New Share Led. Fo.	New Deferred Ordinary Shares.				New Share Led. Fo.	Remarks.
Cert. No.	No. of Shares.	Distinctive Numbers. From	To		Cert. No.	No. of Shares.	Distinctive Numbers. From	To		

The conversion of share capital into stock or *vice versa*, and other re-arrangements of capital are effected in a similar manner.

Exchange of Debentures for Shares.—Sometimes debentures are issued with the right, at the holder's option, of conversion into shares, but in such cases it is important to remember that although debentures may be issued at a discount, shares must be paid for in full, either in cash or some other consideration. Consequently, if debentures are issued at the rate of £95 per £100 debentures, the maximum nominal value of shares that may be issued in exchange for a £100 debenture is £95. For example, assuming that £10,000 debentures are issued at £95, the entries required upon issue are indicated by the following Journal entry :—

		£	£
Cash	*Dr.*	9,500	
Debenture Discount Account	*Dr.*	500	
To Debenture Account. . . .			10,000
being issue of £10,000 debentures at £95 per £100.			

The Debenture Discount Account is extinguished by successive transfers to the debit of Profit and Loss Account over a period of years, say, ten years or other period as may be arranged, according to the term or life of the debentures.

When the debentures are converted into shares, the difference between the nominal value of the shares allotted and the amount of the debentures surrendered may be utilised in extinguishing any debit balance of the Debenture Discount Account or, if the latter account is closed, transferred to the credit of Premium on Shares Account.

If, at the end of, say, five years, the whole of the debentures in the foregoing example were converted into shares and there was a debit balance of £250 in the Debenture Discount Account, the Journal entry to record the conversion will be :—

		£	£
Debenture Account	*Dr.*	10,000	
To Share Capital Account . . .			9,500
,, Debenture Discount Account .			250
,, Premium on Shares Account .			250
being conversion of £10,000 debentures into 9,500 shares of £1 each; shares allotted ..... 19.... (*vide* Minute Book).			

Further, a Debenture Conversion List, similar to the Share Conversion List shown on the previous page, will be prepared, the

accounts in the Register of Debenture Holders closed, and new accounts opened for each allottee in the Register of Members and Share Ledger.

QUESTIONS ON CHAPTER XXV

1. What are the principal forms under which limited companies may amalgamate their businesses? Discuss their principal features.
2. Explain how fractional parts of a share are dealt with in an amalgamation, reconstruction, or reorganisation, etc.
3. Define a "Holding Company." What is the nature of the principal assets of a Holding Company?
4. Outline a scheme for "amalgamation by absorption."
5. How is a "controlling interest" in a company acquired?
6. Define the terms "Reconstruction" and "Reorganisation." What is the distinctive difference between a reconstruction scheme and a reorganisation scheme?

EXERCISE XXV

1. The Wynne Co., Ltd., and the Garde Co., Ltd., agree to amalgamate and to promote a new company, to be registered as the "Wyngarde Co., Ltd.," with a capital of £400,000 in £1 shares, to take over their respective undertakings. The balances in the books of the respective companies at the date of amalgamation were as follows:—

	Wynne Co.		Garde Co.	
	Dr.	*Cr.*	*Dr.*	*Cr.*
	£	£	£	£
Issued Capital—				
Wynne Co., 150,000 Shares of £1 each		150,000		
Garde Co. 100,000 " "				100,000
6 per cent. Debentures		50,000		
Goodwill	25,000		12,000	
Land and Buildings	75,230		42,650	
Plant and Machinery	35,400		18,745	
Stock-in-Trade	42,676		26,320	
Sundry Creditors		35,628		19,958
Sundry Debtors	48,524		23,234	
Bills Receivable	15,620		4,257	
Balances at Bank	18,902		1,234	
Reserve		20,000		5,000
Profit and Loss Account		5,724		3,682
	£261,352	£261,352	£128,640	£128,640

The consideration for the sale of the respective undertakings to the new company is:—

Wynne Co.: the allotment of 150,000 fully paid shares of £1 each, a payment of £30,000 in cash and the discharge of the debenture debt at a premium of 5 per cent.

Garde Co.: the allotment of 100,000 fully paid shares of £1 each, and the payment of £10,000 in cash.

The old companies each pay their liquidation expenses, which amount to £600 for the Wynne Co. and £450 for the Garde Co. The formation expenses of the new company amount to £1,260.

The new company makes a public issue of 100,000 shares to provide additional working capital; the issue is fully subscribed and paid for in full on allotment. Close the books of the old companies and open the new company's books, drafting the first Balance Sheet.

2. The Ess Co., Ltd., had an issued capital of £95,000 consisting of 50,000 Ordinary Shares of £1 each, fully paid, and 45,000 7 per cent. Cumulative Preference Shares of £1 each, fully paid.

The Tee Co., Ltd., had an issued capital of £30,000 consisting of 30,000 Ordinary Shares of £1 each, fully paid.

These two companies (both Private Companies) decided to amalgamate their businesses, and for this purpose a holding company, called The Unit Co., Ltd., was registered on the 1st July, 1922, with a capital of £150,000 in £1 shares. This Company was to purchase all the Ordinary Shares of both the above companies. B., the Managing Director of the Ess Co., Ltd., and F., the Managing Director of the Tee Co., Ltd., each took up and paid for 1,500 shares.

The purchase was arranged on the following terms: The Shareholders of the Ess Co., Ltd., received one £1 share, fully paid, in the Unit Co., Ltd., in exchange for each of their Ordinary Shares. The Shareholders of the Tee Co., Ltd., received one and a half £1 shares, fully paid, in the Unit Co.. Ltd., in exchange for each of their Ordinary Shares.

The expenses incidental to the formation of the Unit Co., Ltd., amounted to £2,000, and were paid out of cash.

Make the necessary entries in the books of the various companies to give effect to the arrangements outlined above, and draw up the opening Balance Sheet of the Unit Co., Ltd.—(*London Association of Accountants.*)

3. With a view to reducing establishment expenses and generally to effect economy in working, the A Co., Ltd., was taken over by the B Co., Ltd., as from 1st January upon the following terms:—

(i) The B Co., to assume the liabilities and take over the assets at book values.

(ii) The B Co. to discharge the debentures in A Co. at 105 % by the issue of new debentures at 6 % in the B Co.

(iii) The B Co. to pay the shareholders in A Co. 10s. per share, and to give three 10s. shares in the B Co. for every £1 share in the A Co. The 10s. shares were considered as being at par.

The following Balance Sheet of the A Co. was prepared as on 31st December, 1921.

Liabilities.	£	*Assets.*	£
Nominal Capital: 50,000 shares of £1 each	50,000	Goodwill	35,000
		Freehold Land and Buildings	15,650
		Machinery and Plant	3,210
Issued: 47,500 shares of £1 each	47,500	Fixtures and Fittings	850
Five per cent. Debentures	12,000	Sundry Debtors	10,990
Reserve Fund	15,000	Stock	4,660
Sundry Creditors	7,650	Investments	14,650
Profit and Loss Account, Balance at credit	4,960	Cash at Bank and in Hand	2,100
	£87,110		£87,110

Give the entries necessary to close off the books of the A Co., and show how the acquisition of the business would be recorded in the books of the B Co.—(*Institute of Chartered Accountants.*)

4. The following was the Balance Sheet of the X Manufacturing Co., Ltd. (in which there were five shareholders with equal holdings), as on 31st December—

Liabilities.	£	*Assets.*	£
Nominal Capital: 20,000 Ordinary Shares of £1 each	20,000	Land and Buildings	2,300
		Plant and Machinery	2,108
Issued: 18,000 Ordinary Shares of £1 each, fully paid	18,000	Furniture and Fittings	415
Sundry Creditors	5,674	Stock	3,691
Reserve Fund	15,000	Sundry Debtors	12,674
Profit and Loss Account, Balance at Credit	7,450	Investments	16,420
		Cash at Bank	8,502
		Cash in hand	14
	£46,124		£46,124

It was decided to form a new Limited Company to take over the business as a going concern as on the above date, the new company bearing the same name, and having a nominal capital of £75,000 in ordinary shares of £1 each. The consideration for the sale of the business was 50,000 fully-paid shares in the new company, and the balance of the Profit and Loss Account in cash, the new company taking over all assets (as set out in the old company's Balance Sheet) with the exception of the investments; and undertaking to pay the sundry creditors and the liquidation expenses (estimated at £200), with the exception of £43 contributed by the old company.

The new company had fresh valuations made of the following assets, viz.:

Land and Buildings which were valued at £5,000;
Plant and Machinery ,, ,, £3,500; and
Furniture and Fittings ,, ,, £500

Draft the initial Balance Sheet of the new company as on 1st January. Give the entries necessary to close the books of the old company and state what each shareholder would receive. Investments were not realised, but were distributed *pro rata* to the shareholders.—(*Institute of Chartered Accountants.*)

5. The Balance Sheets of the A. Co., Ltd., and the D Co., Ltd., at 31st December were as follows:—

Liabilities.	A. Co. £	D. Co. £	*Assets.*	A. Co. £	D. Co. £
Ordinary Capital in £1 shares	50,000	20,000	Land and Buildings	40,000	
Preference Do.	50,000		Machinery	60,000	
Debentures	25,000	5,000	Patent Rights		20,000
Creditors	5,000	1,000	Debtors	20,000	5,000
Reserve	10,000		Investments	10,000	
Profit and Loss Account, Balances at Credit	10,000	1,000	Bank	20,000	2,000
	£150,000	£27,000		£150,000	£27,000

The Ordinary Shares of the A Co., Ltd., were quoted at 30s. per share, and the Preference Shares at par. They agreed to buy the Patent Rights of the D Co., Ltd., for £40,000, the book debts at their face value, and to give £10,000 for the goodwill. The consideration was to be the allotment of 20,000 Ordinary Shares and 25,000 Preference Shares—and the D Co., Ltd., was put into liquidation accordingly.

Make the necessary Journal entries in the books of the A Co., Ltd., and show the Balance Sheet after the purchase.—(*Inst. of Chartered Accountants.*)

6. The following is the Balance Sheet of the Bailey Manufacturing Co., Ltd., on 30th June :—

Liabilities.	£	*Assets.*	£
Isssued Capital 150,000 Ordinary Shares of £1 each	150,000	Goodwill	20,000
Mortgage	40,000	Freehold Land and Buildings	65,000
Creditors	20,000	Freehold Cottages	10,000
Bills Payable	6,000	Leasehold Property	5,000
Bank Overdraft	25,000	Plant and Machinery	50,000
Superannuation Fund	5,000	Loose Tools	7,000
Reserve for Income Tax	10,000	Fixtures and Fittings	10,000
„ „ C. P. Tax	1,750	Motor Vehicles	8,000
Reserve Account	10,000	Stock	40,250
Profit and Loss Account	20,000	Debtors	35,000
		Investments	12,000
		Suspense Account	11,500
		Inland Revenue Reclaim	14,000
	£287,750		£287,750

The Company decided to wind up and sell the assets to a Syndicate on the basis of the Balance Sheet, subject to the following increases :—

Freehold Land and Buildings, 50% ; Freehold Cottages, 75% ; Plant and Machinery, 100% ; Stock, 100% ; Loose Tools, 100% ; Motor Vehicles, 25% ; Fixtures, 20%.

The leasehold property was taken over at face value ; the investments at the market price of the day, £10,000 ; the suspense and goodwill accounts at nil ; and the amount due from the Inland Revenue, £13,000. Five per cent. Reserve was deducted from Debtors as a Reserve for bad debts. The liabilities were all taken over as they stood, except that shareholders were to receive a dividend of 10%, free of tax.

The Syndicate were to pay the members of the Bailey Co. by shares in a new company formed by the syndicate.

You are required to draw up a Balance Sheet, showing how the figures would appear in the Balance Sheet of the Syndicate and also state the amount of shares the members of the Bailey Co. would receive in the Syndicate for each £1 share in the Bailey Co.—(*Incorporated Accountants.*)

CHAPTER XXVI

BANK BOOK-KEEPING AND ACCOUNTS

Services of the Modern Banking System.—The services rendered by the modern banker to commerce, industry, and the community in general may be briefly summarised as follows :—

(1) Keeping current accounts for traders and private individuals, collecting cheques, bills of exchange, and cash articles (postal orders, money orders, bank notes, etc.), and affording facilities, by means of cheques and drafts, for remitting money from one part of the country to another.

(2) Discounting bills of exchange and promissory notes.

(3) Granting loans and overdrafts on approved securities.

(4) Receiving money on deposit.

(5) Affording facilities for obtaining money abroad, by means of circular notes and letters of credit.

(6) Acting as agent for country and foreign banks.

(7) Buying and selling stocks and shares for customers, collecting dividends, also keeping in safe custody for them, jewels, securities, and other valuables.

How a Banker makes his Profits.—A banker's profits are derived from interest on loans granted, discount (or interest) on bills and notes discounted, commission charged for conducting current accounts, for accepting and indorsing bills payable abroad, and for other services rendered to his customers. Inasmuch as he is liable to repay on demand the balances of his customers' current accounts, he retains of the money received, either in his possession or on current account at the Bank of England, a sum sufficient to meet his normal requirements. The remainder he lends out at remunerative rates of interest, or invests in Government, municipal, or other gilt-edged securities.

Special Features of Bank Book-keeping.—As can be seen from the previous two paragraphs, a banker requires books to record money received, money paid, money lent, interest, discount, and commission earned, interest paid, expenses of management, etc. The system adopted, therefore, consists chiefly of an elaborate analysis of cash received and paid. Other special features are the slip system of ledger posting, and the daily balance.

NOTES ON THE BOOKS

Receiving Cashier's Counter Cash Book.—The Receiving Cashier (or teller) is the cashier who receives over the counter the customers' lodgments, *i.e.*, cheques, notes, coin, etc., which the customer

wishes to be placed to the credit of his account. He initials the customer's paying-in book. All these receipts he records in his own Cash Book as and when he receives them. The following is a specimen :—

RECEIVING CASHIER'S COUNTER CASH BOOK

Customer.	Total.			Cheques, Etc.			Notes.			Coin.		
Smith & Son . . .	85	3	2	62	10	6	20	–	–	2	12	8

Paying Cashier's Counter Cash Book.—The Paying Cashier is the cashier who pays over the counter those cheques drawn by the bank's customers that are not crossed or not payable through the Clearing House. He enters such cheques in his Cash Book, and records the numbers of any notes issued. The following is a specimen :—

PAYING CASHIER'S COUNTER CASH BOOK

Customer.	Total.			Coin.			Notes.			House Cheques.			Walks Cheques.		
							Amount.			Numbers.					
Bartlett, F. M.	30	11	6	10	11	6	20	–	–	4 £5 47081–4					
Stevens & Sons											4	10	–		

Received Waste Book.—This is a book ruled with columns in order that the cheques, etc., received by a bank for the credit of its customers' accounts may be analysed into appropriate groups so as to facilitate collection. Thus, all Town Clearing cheques are grouped together, all Metropolitan Clearing, all Walks cheques, all Bank of England cheques, and so on. Some banks enter only the cheques received, others enter coin and notes as well in order that the total may be checked with the Received Cash Book total. A specimen is shown on page 959. "Walks Cheques" refers to those cheques which are drawn on bankers not represented at the Clearing House. The collecting bank's representative has to walk to the paying bankers to present the cheque and collect the money.

Bank of England or Goldsmith's Book.—This is a book in which are entered all Bank of England notes received or issued to the public and paid into the bank's credit at the Bank of England. It is a memorandum register containing details of the bank's daily deposits of Bank of England notes, post bills, and cheques with the Bank, and of its withdrawals from the Bank. A specimen ruling is shown on page 959. Goldsmith's deposit notes were the earliest form of bank note, hence the use of the term.

RECEIVED WASTE BOOK

Customer.	Total.	Town Clearing.	Metro-politan Clearing.	Country Clearing.	Walks.	Bank of England.	House (own) Cheques.	Notes.	Coin.
Smith & Son	85 3 2	24 10 –	10 12 6	6 10 –	5 12 6	10 15 6	4 10 –	20 – –	2 12 8

BANK OF ENGLAND (OR GOLDSMITH'S) BOOK

Date.	Particulars.	Paid in.						Drawn out.		
		Gold.	Notes.	Cheques.	Post Bills.	Fol.	Total.	Particulars.	Fol.	Total.
Jan. 15	Received Waste Book Clearing		20 – –	10 15 6 826 10 4	50 – –		30 15 6 876 10 4	Notes Gold Silver		120 – – 800 – – 50 – –

Bills Received for Collection Register.—Customers who receive bills of exchange usually pay them into their bank for collection two or three days before the due date. This gives their banker time to present such bills on the exact due date. These bills are numbered consecutively by the bank, and full particulars are entered in a special book entitled "Bills Received for Collection Register." A specimen of such book is given on page 961. Some banks credit these bills to the customers' accounts in a separate Bills Ledger, and debit them to a General Ledger Account, entitled "Bills Received for Collection." When the bills are paid, dockets are prepared reversing the former entries, the Bills Ledger Account being debited and the Bills for Collection Account credited; Cash also is debited, and the amounts credited to the customers' accounts in the Current Accounts Ledger. In other banks these bills are excluded from the system of accounts. Only the Register is kept, and when the bills are paid, Cash is debited and the Current Accounts credited. All bills are arranged in order of due date and entered in a special Bill Diary.

Bills Received for Discount Register.—This is a book which gives full particulars of all bills discounted by a bank for its customers. A specimen is shown on page 961.

Bills Received for Discount Ledger.—This is a book which records particulars of bills discounted for each individual customer, an account being opened in the customer's name. It is important for a bank to know how much it is advancing on each individual customer's indorsement. Particulars of these discounted bills are also entered in an Acceptor's Ledger, an account being opened in the name of each acceptor. By this means the bank can prevent itself holding too many of any one person's acceptances. When the bill is discounted, the full face value is debited to a Bills Receivable Discounted Account and credited to the customer's Current Account. The discount charged is debited to the customer's Current Account and credited to a Discount Account in the General Ledger. When the discounted bill is paid at maturity, Cash is debited and Bills Receivable Discounted Account credited. The following is a specimen of the Discount Ledger.

BILLS RECEIVED FOR DISCOUNT LEDGER

Date Received.	No. of Bill.	Acceptor.	Drawer.	Due Date.	Amount. *Dr.*			Amount. *Cr.*			Balance.		
Jan. 12	842	T. Pink	R. Cook	Feb. 28	268	9	2				268	9	2
Feb. 28	"	Paid						268	9	2			

BILLS RECEIVED FOR COLLECTION REGISTER

No.	Date Received	From whom Received.	Drawer.	Acceptor.	Date of Bill.	Due Date.	Where Payable.	Amount of Bill.			Date Paid.
	19—										19—
825	Jan. 16	Limpet & Co.	A. Johnson	F. Green	Nov. 15	Jan. 18	London and County	287	14	8	Jan. 18
826	Jan. 17	Scott, R. J.	Roberts & Co.	T. Lake	Dec. 16	Jan. 19	Bank of England	106	11	7	

BILLS RECEIVED FOR DISCOUNT REGISTER

No. of Bill.	Seller.	Acceptor.	Drawer.	Where Payable.	Amount of Bill.			Due Date.	Date Discounted.	Days to Run.	Rate of Discount.	Amount of Discount.			Remarks.
								19—	19—						
834	Albert & Co.	Scott & Brown	A. Tomlin	London Joint Stock	420	–	–	Feb. 14	Jan. 4	41	5%	2	7	2	Paid
835	Thompson A.	Green & Co.	C. Beaver	Union & Smiths	200	–	–	Mar. 2	Jan. 5	56	5%	1	10	8	Paid

PAYING-IN SLIP

The following is a specimen of a paying-in slip from which the Received Waste Book is written up, as is also the credit side of the customer's Current Account.

THE SAFE BANK, LIMITED,
121 HILLCORN
LONDON, E.C.2.

Date.....20*th Jan.*, 19....

CREDIT..... *A. Roberts*.....

Gold					
Silver	12	11	6		
Copper	3	8			
				12	15	2
Treasury Notes				5	–	–
Other Notes						
Cheques—						
R. Brown				16	14	11
F. Roberts				48	10	2
T. Smith				19	4	6
A. Jones				37	11	5
Bills						
				£139	16	2

THE SAFE BANK, LIMITED,
121 HILLCORN,
LONDON, E.C.2.

Date....20*th Jan.*, 19....

CREDIT..... *Arthur Roberts*.....

GOLD					
SILVER	12	11	6		
COPPER	3	8			
				12	15	2
TREASURY NOTES—20s.				5	–	–
TREASURY NOTES—10s.						
OTHER NOTES						
CHEQUES—						
(*to be entered singly*)				16	14	11
				48	10	2
				19	4	6
				37	11	5
BILLS						
				£139	16	2

CURRENT ACCOUNTS

Definition.—A Current Account is the running account of the merchant or business man with his banker, into which he is daily paying cheques and on which he is daily drawing cheques.

Interest on Current Accounts.—It is the practice of almost all the London banks to require a certain substantial balance of from £50 to £100 to be maintained, and not to allow interest on the account, nor to charge for keeping it. Where, however, a very large balance is constantly maintained, arrangements are sometimes made for allowing interest thereon. Provincial banks allow interest on current accounts, and likewise charge interest when the balance falls below a stipulated amount.

Charges for Keeping a Current Account.—Where only a small balance is maintained, some banks make a charge varying from half-a-guinea to two guineas for conducting the account. Some bankers debit the fee to their customers as "charges," others term it "commission." Again, some banks, while allowing interest, make a charge for keeping the account. The charge varies from even less than $\frac{1}{8}$ per cent. to $\frac{1}{4}$ per cent. on the turnover, *i.e.*, the total amount of the items debited to the account.

Form of Current Account Ledger.—The form of the Current Account Ledger is quite different from that of the ordinary commercial Ledger. The Dr. and Cr. columns are placed side by side, and are followed by a third column in which is inserted the daily balance. This form of Ledger is retained even when no interest calculations have to be made.

Calculation of Interest.—Interest is calculated on the daily credit balance for the number of days such balance remains unchanged. The balance (taken to the nearest pound) is multiplied by the number of days and the result extended into the "products" column; such products are often spoken of as "decimals," though quite inaccurately. The rate of interest allowed is usually 1½ per cent. below Bank rate, and thus fluctuates with it. Where the bank rate has fluctuated during the half-yearly account, the products are divided into periods corresponding with each particular Bank rate, and a separate total of products is made for each period. At the close of the half-year, each total is charged with its proper rate of interest. In actual practice the amount of the interest is ascertained by reference to special Interest Tables; but in examination work it must be found by arithmetical calculations as explained in Chapter IV on Accounts Current.

Example.—From the following particulars draw up the account of William White, 27 Rufus Gardens, Brinkley, as it would appear in the Bank's Current Account Ledger on 30th June, interest to be charged at 3 per cent. on the daily balance :—

19—		*Deposits.*	19—		*Withdrawals.*
Jan. 1.	Balance . .	£206 12 4	Jan. 12.	Cheque . .	£41 4 8
Feb. 12.	Cash, etc. .	57 18 11	Feb. 9.	Cheque . .	24 13 5
Mar. 24.	Cash, etc. .	43 2 8	Mar. 18.	Cheque . .	36 12 10
Apr. 13.	Cash, etc. .	57 4 10	Apr. 23.	Cheque . .	17 14 2
May 15.	Cash, etc. .	29 13 6	May 16.	Cheque . .	85 3 6
June 25.	Cash, etc. .	120 15 3	June 21.	Cheque . .	54 8 9

(See next page.)

BANK PASS BOOK

Definition.—The Bank Pass Book is a detailed account of the transactions that the trader has had with his bankers, a record of the amounts he has paid into, and withdrawn from, the bank, and by means of which he checks the "Bank" column of his own Cash Book.

Methods of Writing up the Pass Book.—There are two ways in which the Pass Book is written up. With some banks it is the practice to write it up from the customer's point of view, *e.g.*:—

THE SAFE BANK, LIMITED,
IN ACCOUNT WITH
William White.

19—					19—			
Jan 1	To Balance . .	110	16	8	Jan. 5	By Self . . .	15	10
8	„ Cash . . .	52	4	10				

CURRENT ACCOUNT LEDGER

WILLIAM WHITE,
27 RUFUS GARDENS, BRINKLEY.

Date.	Details.	Folio.	Amount. Dr.	Amount. Cr.	Nature of Balance.	Balance.	Interest. Days.	Products.	Rate.	Amount.
19—										
Jan. 1	By Balance			206 12 4	Cr.	206 12 4	12	2,484		
12	To Cheque		41 4 8		,,	165 7 8	28	4,620		
Feb. 9	,, ,,		24 13 5		,,	140 14 3	3	423		
12	By Cash			57 18 11	,,	198 13 2	34	6,766		
Mar. 18	To Cheque		36 12 10		,,	162 – 4	6	972		
24	By Cash			43 2 8	,,	205 3 –	20	4,100		
Apr. 13	,, ,,			57 4 10	,,	262 7 10	10	2,620		
23	To Cheque		17 14 2		,,	244 13 8	22	5,390		
May 15	By Cash			29 13 6	,,	274 7 2	1	274		
16	To Cheque		85 3 6		,,	189 3 8	36	6,804		
June 21	,, ,,		54 8 9		,,	134 14 11	4	540		
25	By Cash			120 15 3	,,	255 10 2	5	1,280		
30	,, Interest		[1] 1 5 10	2 19 8						
,,	To Balance c/d		257 4 –							
	[1] ¼% on £518 7s. 2d.									
			518 7 2	518 7 2				36,273	3%	2 19 8
June 30	By Balance b/d			257 4 –	Cr.	257 4 –				

In such cases the bank debits itself with money received and credits itself with money paid. With other banks it is the practice to write up the Pass Book from the banker's point of view, *e.g.*:—

William White,
IN ACCOUNT WITH
THE SAFE BANK, LIMITED

19—					19—				
Jan. 5	To Self . . .	15	10	–	Jan. 1	By Balance . .	220	16	8
					8	„ Cash . .	52	4	10

In such cases the bank credits the customer with what he pays in, and debits him with what he draws out. In the former case, therefore, the Pass Book is a copy of the customer's Bank Cash Book; in the latter case it is a copy of the Bank's Ledger.

DEPOSIT ACCOUNTS

Definition.—A Deposit Account represents money which has been placed with a banker at interest, and which cannot be withdrawn without previous notice. The length of notice varies from 7 days to 12 months, and the longer the notice of withdrawal required, the higher the rate of interest allowed on the deposit.

Deposit Receipt.—A Deposit Receipt is the receipt given by a banker for money placed on deposit with him. It needs no stamp, and is not transferable.

Transfers from Current Account to Deposit Account.—Customers sometimes wish money to be transferred from their Current to a Deposit Account, and in such cases slips are prepared as follows :—

THE SAFE BANK, LIMITED.

15th Jan, 19—

DEBIT *Arthur Roberts*, Current Account, transfer to Deposit Account.

A. R. F.,
Accountant.

£250.

THE SAFE BANK, LIMITED.

15th Jan., 19—

CREDIT *Arthur Roberts*, Deposit Account, transfer from Current Account. Deposit Receipt No. 74168.

A. R. F.,
Accountant.

£250.

or else a docket in this form :—

THE SAFE BANK, LIMITED.

15th Jan., 19—

Arthur Roberts.

DEBIT Current Account	£250
CREDIT Deposit Account	£250

A. R. F.

BANKERS' CLEARING HOUSE

The Bankers' Clearing House is a place where bankers or their representatives meet to exchange cheques drawn on one another. Each bank draws up a list and ascertains the result of its in and out clearing with each of the other banks. These net differences are settled by means of drafts on the Clearing Bankers' Account at the Bank of England. There are three clearings, Town, Metropolitan, and Country.

Town Clearing applies to all those cheques which are presented for payment through the Clearing House in Lombard Court.

Banks usually keep two separate Registers ruled with columns for the different banks, in which all cheques are analysed. The totals of the "In" and "Out" Clearing Registers are entered into a Clearing Balance Book, separate totals being shown for each clearing bank. The differences between each set of totals are settled by transfers either from the Clearing Bankers' Account to the accounts of the banks to whom the money is due, or to the Clearing Bankers' Account from the banks owing such balances.

SLIP SYSTEM OF LEDGER POSTING

Slips are really loose leaves of Journals or Cash Books on which transactions are entered as they occur and passed to the ledger-keeper concerned for immediate posting to the debit or credit of accounts mentioned thereon.

A banker requires to know at any time the exact amount to the credit of his customers' accounts, and therefore the transactions must be posted up as soon as possible after they have taken place. This would not be possible if the transactions were all entered into bound books; because the ledger-keepers could use the book only one at a time, and much delay would ensue. The slip system enables numerous ledger-keepers to be posting the same day's transactions simultaneously.

The original cheques drawn by customers are used as vouchers for posting. The cashier credits Cash and passes them to the ledger-keeper to debit the customers. The original paying-in slips are made out by the customers and used as vouchers for posting. The cashier debits Cash, initials slips, and passes them to the ledger-keeper, who credits the customers' accounts.

The original application form made out by the customer for a fresh book of cheques is used as a voucher for posting; the clerk credits "Stamps on Cheques" Account and debits the customer. The bank makes out its own slips (also called "dockets") for transfer of money from customers' current accounts to customers' deposit accounts, and these are passed to the ledger-keepers for posting.

GENERAL LEDGER

CASH

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	85,187	10	4
2	To Day Book .	3,758,836	7	3								
,,	By do. .				3,758,108	13	–	Dr.	85,915	4	7

BANK OF ENGLAND

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	726,662	10	6
2	To Day Book .	616,745	15	6								
,,	By do. .				525,070	10	–	Dr.	818,337	16	–

BRANCHES

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	1,175,022	7	6
2	To Day Book .	1,316,925	13	10								
,,	By do. . .				1,267,841	18	4	Cr.	1,125,938	12	–

CURRENT ACCOUNTS—TOWN

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	1,968,426	16	5
2	To Day Book .	1,156,804	13	2								
,,	By do. .				1,308,658	14	7	Cr.	2,120,280	17	10

These slips and original documents are also passed to other clerks for analysis in the Waste Book, for writing up the Pass Books, and for constructing Total Accounts in the General Ledger, etc.

The original paying-in slip is recorded by the :—

(1) Receiving Cashier in his Counter Cash Book ;

(2) Waste Book Clerk for purposes of analysis in order to facilitate collection ;

(3) Ledger-keeper for posting to customer's account ;

(4) Pass Book clerk for writing up the Pass Book, which is afterwards compared with the customer's account in the Current Account Ledger.

The original cheque drawn by the customer is used as a slip and recorded by the :—

(1) Paying cashier in his Counter Cash Book ;

(2) Keeper of Paid Cash Book ;

(3) Ledger-keeper ;

(4) Pass Book clerk.

CASH DAY

Dr. WEDNESDAY,

To Town Current A/cs, paid in	1,308,658	14	7			
„ Country „ „ „ „	362,500	19	6			
				1,671,159	14	1
„ Overdrawn Current A/cs—						
Town	60,785	12	8			
Country	52,187	13	8			
				112,973	6	4
„ Loans paid off				35,050	15	9
„ Deposits paid in				5,860	15	–
„ Bills Discounted				3,752	10	5
„ Bills for Collection				1,475	10	6
„ Interest on Loans				42	5	10
„ Discount				84	7	2
„ Commission				25	–	–
„ Letters of Credit				65	14	10
„ Circular Notes				50	–	–
„ Suspense A/c *re* Lloyd & Co.				26	2	8
„ Cheque Stamps				20	10	6
„ Branches paid in				1,267,841	18	4
„ Bank of England drawn out				525,070	10	–
„ Bills Payable				32,650	12	8
„ Acceptances				75,837	6	10
„ Money at Call				24,685	16	2
„ Promissory Notes Discounted				2,163	10	2
				3,758,836	7	3
Balance from 1st March				85,187	10	4
				3,844,023	17	7

The use of original documents made out by customers saves labour, facilitates speed, and reduces the risk of fraud and error, any of which might occur as the result of much copying. It also ensures a system of check, because the same set of slips used by different sets of clerks must still give the same total.

GENERAL CASH BOOK AND LEDGER

The whole of the bank's transactions are summarised daily in a special Summary Book, the totals of all other books being entered. When the balance has been struck and agreed with the various Registers and the Cash held, which consists of money, notes and cheques not collected, the final summary is then written in the General Journal or Cash Book, and posted to the General Ledger. The General Ledger contains only total accounts. A total account may represent either a subsidiary Ledger or a group of such Ledgers. A specimen of Cash Book appears on pp. 968–9, and a specimen of General Ledger on p. 967.

BOOK.

2ND MARCH, 19— *Cr.*

By Town Current A/cs, drawn out	1,156,804	13	2			
„ Country „ „ „ „	347,628	10	2			
				1,504,433	3	4
„ Overdrawn Current A/cs—						
Town	68,725	10	5			
Country	68,916	15	4			
				137,642	5	9
„ Loans granted . . .				6,216	15	8
„ Deposits drawn out . .				4,060	10	6
„ Bills Discounted . . .				5,216	14	10
„ Bills for Collection . .				2,075	16	4
„ Interest paid on Current A/cs				26	15	7
„ Interest paid on Deposit A/cs				42	8	9
„ Letters of Credit . .				20	11	8
„ Circular Notes . . .				30	–	–
„ Suspense A/c re R. Phillips .				50	10	2
„ Cheque Stamps . . .				35	15	–
„ Charges				20	10	6
„ Branches, drawn out . .				1,316,925	13	10
„ Bank of England paid in .				616,745	15	6
„ Money at Call . . .				55,026	10	5
„ Bills Payable . . .				75,837	6	10
„ Acceptances . . .				32,650	12	8
„ Promissory Notes Discounted				1,050	15	8
				3,758,108	13	–
Balance to 3rd March .				85,915	4	7
				3,844,023	17	7

CURRENT ACCOUNTS—COUNTRY

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	782,564	19	7
2	To Day Book .	347,628	10	2								
,,	By do. .				362,500	19	6	Cr.	797,437	8	11

OVERDRAWN CURRENT ACCOUNTS—TOWN

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	65,050	15	6
2	To Day Book .	68,725	10	5								
,,	By do. .				60,785	12	8	Dr.	72,990	13	3

OVERDRAWN CURRENT ACCOUNTS—COUNTRY

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	43,715	16	8
2	To Day Book .	68,916	15	4								
,,	By do. .				52,187	13	8	Dr.	60,444	18	4

DEPOSIT ACCOUNTS

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	274,850	10	6
2	To Day Book .	4,060	10	6								
,,	By do. .				5,860	15	–	Cr.	276,650	15	–

LOANS

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	1,356,306	15	6
2	To Day Book .	6,216	15	8								
,,	By do. .				35,050	15	9	Dr.	1,327,472	15	5

MONEY AT CALL

Date.		Dr.				Cr.				Balance.			
19—													
Mar. 1	. . . . .								Dr.	686,420	4	2	
2	To Day Book .	55,026	10	5									
„	By do. .					24,685	16	2	Dr.	716,760	18	5	

CIRCULAR NOTES

Date.		Dr.				Cr.				Balance.			
19—													
Mar. 1	. . . . .								Cr.	210	–	–	
2	To Day Book .	30	–	–									
„	By do. .					50	–	–	Cr.	230	–	–	

LETTERS OF CREDIT

Date.		Dr.				Cr.				Balance.			
19—													
Mar. 1	. . . . .								Cr.	275	15	6	
2	To Day Book .	20	11	8									
„	By do. .					65	14	10	Cr.	320	18	8	

BILLS FOR COLLECTION

Date.		Dr.				Cr.				Balance.			
19—													
Mar. 1	. . . . .								Dr.	4,658	10	8	
2	To Day Book .	2,075	16	4									
„	By do. .					1,475	10	6	Dr.	5,258	16	6	

CHEQUE STAMPS

Date.		Dr.				Cr.				Balance.			
19—													
Mar. 1	. . . . .								Dr.	650	12	6	
2	To Day Book .	35	15	–									
„	By do. .					20	10	6	Dr.	665	17	–	

BILLS DISCOUNTED

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	457,612 18 4
2	To Day Book	5,216 14 10			
„	By do.		3,752 10 5	Dr.	459,077 2 9

PROMISSORY NOTES DISCOUNTED.

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	15,650 10 6
2	To Day Book	1,050 15 8			
„	By do.		2,163 10 2	Dr.	14,537 16 –

ACCEPTANCES.

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	168,725 12 8
2	To Day Book	32,650 12 8			
„	By do.		75,837 6 10	Dr.	125,538 18 6

BILLS PAYABLE

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Cr.	168,725 12 8
2	To Day Book	75,837 6 10			
„	By do.		32,650 12 8	Cr.	125,538 18 6

INTEREST ON DEPOSITS

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	250 15 6
2	To Day Book	42 8 9		Dr.	293 4 3

INTEREST ON LOANS

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Cr.	6,257 8 4
2	By Day Book		42 5 10	Cr.	6,299 14 2

INTEREST ON CURRENT ACCOUNTS

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	48 19 6
2	To Day Book	26 15 7		Dr.	75 15 1

DISCOUNT

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Cr.	1,236 10 5
2	By Day Book		84 7 2	Cr.	1,320 17 7

RATES AND TAXES

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Dr.	440 — —

COMMISSION

Date.		Dr.	Cr.		Balance.
19—					
Mar. 1	. . . . .			Cr.	200 — —
2	By Day Book		25 — —	Cr.	225 — —

CHARGES

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	620	14	3	
2	To Day Book	20	10	6				Dr.	641	4	9	

INVESTMENTS

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	1,218,086	10	6	

RESERVE

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	575,000	–	–	

SUSPENSE

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	370	18	6	
2	To Day Book	50	10	2								
„	By do.				26	2	8	Dr.	395	6	–	

PREMISES

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Dr.	124,000	–	–	

PROFIT AND LOSS

Date.		Dr.			Cr.				Balance.			
19—												
Mar. 1	. . . . .							Cr.	1,689	14	8	

GENERAL LEDGER TRIAL BALANCE

2ND MARCH, 19— *Dr.* *Cr.*

Cash	85,915	4	7			
Bank of England	818,337	16	–			
Branches				1,125,938	12	–
Current A/cs—Town				2,120,280	17	10
Do. —Country				797,437	8	11
Overdrawn Current A/cs—						
Town	72,990	13	3			
Country	60,444	18	4			
Deposit A/cs				276,650	15	–
Loans	1,327,472	15	5			
Money at Call	716,760	18	5			
Circular Notes				230	–	–
Letters of Credit				320	18	8
Bills for Collection	5,258	16	6			
Cheque Stamps	665	17	–			
Bills Discounted	459,077	2	9			
Promissory Notes Discounted	14,537	16	–			
Acceptances	125,538	18	6			
Bills Payable				125,538	18	6
Interest on Deposits	293	4	3			
Interest on Loans				6,299	14	2
Interest on Current A/cs	75	15	1			
Discount				1,320	17	7
Rates and Taxes	440	–	–			
Commission				225	–	–
General Charges	641	4	9			
Investments	1,218,086	10	6			
Reserve				575,000	–	–
Premises	124,000	–	–			
Suspense A/c	395	6	–			
Profit and Loss				1,689	14	8
	5,030,932	17	4	5,030,932	17	4

PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

The following is a specimen of a Bank Profit and Loss Account and Balance Sheet.

Dr. PROFIT AND LOSS ACCOUNT. *Cr.*

To Interest allowed to Customers	184,219	11	5	By Balance unappropriated brought forward on 30th June, 19—	127,614	10	6
„ Salaries and other Expenses at Head Office and Branches	286,905	13	7	„ Gross Profit after making provision for Bad Debts and Contingencies, and Income Tax, and including Rebate brought forward	802,862	18	4
„ Rebate on Bills carried to New A/c	32,617	14	4				
„ Bank Premises A/c	10,000	–	–				
„ Dividend for half-year to 31st Dec. at 20 % per annum £300,000 – –							
„ Balance carried forward 116,734 9 6							
	416,734	9	6				
	930,477	8	10		930,477	8	10

BALANCE SHEET

AS AT 31ST DECEMBER, 19—

Liabilities				*Assets*			
Subscribed Capital—				Cash in hand and at Bank of England	6,406,814	10	6
200,000 Shares of £50 each, £15 per share paid up	3,000,000	–	–	Cash at Call and Short Notice	6,812,084	15	4
Reserve Fund	2,027,050	10	6	Investments—			
Current Accounts	26,862,785	11	8	Consols and other Government Securities	3,864,108	10	2
Deposit Accounts	11,552,861	12	6	Indian Govt. Stocks	606,840	15	9
Circular Notes, Letters of Credit, Commission, and Contingencies	237,912	11	5	Foreign and Colonial Govt. Securities	219,050	10	–
Acceptances for Customers	3,516,287	12	4	British Corporation and Railway Stocks	2,484,626	12	8
Liabilities by Indorsement on Bills	36,525	10	8	Other Investments	1,257,084	9	10
Rebate on Bills not due	32,617	14	4	Reserve Fund Investments	2,027,050	10	6
Profit and Loss A/c, balance as above	416,734	9	6	Bills Discounted	4,816,075	12	4
				Loans to Customers and others on Security	14,068,150	10	–
				Liability of Customers for—			
				Acceptances as per contra	3,516,287	12	4
				Indorsements „ „	36,525	10	8
				Premises and Fittings at Head Office and Branches	1,568,075	12	10
	47,682,775	12	11		47,682,775	12	11

NOTES ON THE BALANCE SHEET

Cash.—The order of Assets it will be noted is the cash order, or order of realisability. Cash at Bank of England denotes the balance of the bank's Current Account with the Bank of England. This balance acts as a reserve in cases of emergency.

Money at Call and Short Notice.—This item denotes Loans to Bill Brokers, Stock Brokers, and others on security called "Floaters" (*i.e.*, exchequer bonds, Consol certificates, and other first-class securities). Advances are also made on Dock Warrants, Consignments, Produce Documents, etc.

Bills Discounted.—This amount represents the total of the bills discounted which have not yet matured.

Loans and Advances.—This item denotes the loans made to its customers either as separate transactions or as overdrafts on current account, usually against the deposit of some security.

Liability of Customers for Acceptances and Indorsements.—These items denote bills which the bank has accepted or indorsed on behalf of its customers. This is usually done in the case of foreign bills, as it greatly facilitates their negotiation abroad. The customer is, of course, liable to the bank, while the bank is liable to parties abroad. These items, therefore, appear on both sides of the Balance Sheet.

Rebate on Bills.—As at balancing time many of the Bills Discounted will not have matured, it follows that all the Discount charged will not have been earned during the current period. The unexpired portion of such Discount is, therefore, debited to the Profit and Loss A/c and carried forward to the next half-year's accounts.

STATUTORY STATEMENT

Under the Companies (Consolidation) Act, 1908, section 108, every Limited Banking Company must, before it commences business, and also on the first Monday in February and the first Tuesday in August of every year during which it carries on business,

make a statement in the following form, or as near thereto as circumstances will admit :—

[1] The share capital of the Company is £ , divided into shares of each.
The number of shares issued is .
Calls to the amount of £ per share have been made, under which the sum of £ has been received.
The liabilities of the Company on the first day of January (or July) were—
Debts owing to sundry persons by the Company :—
On judgment, £ .
On speciality, £ .
On notes or bills, £ .
On simple contracts, £ .
On estimated liabilities, £ .
The assets of the Company on that day were :—
Government securities (*stating them*).
Bills of Exchange and promissory notes, £ .
Cash at the bankers, £ .
Other securities, £ .

[1] If the Company has no share capital, the portion of the statement relating to capital and shares must be omitted.

A copy of the Statement must be put up in a conspicuous place in the registered office of the Company, and in every branch office or place where the business is carried on.

QUESTIONS ON CHAPTER XXVI

1. State briefly the services rendered by the modern banker to commerce and industry.
2. How does a banker make his profits? What are the special features of Bank book-keeping?
3. Explain briefly the use of the following books: (1) Receiving Cashier's Counter Cash Book, (2) Paying Cashier's Counter Cash Book, (3) Received Waste Book, (4) Goldsmith's Book, (5) Bills Received for Collection Register, (6) Bills Received for Discount Register, (7) Discount Ledger.
4. What are Current Accounts? What is the practice with regard to interest thereon?
5. Explain the following: (*a*) Deposit Account, (*b*) Bank Pass Book, (*c*) Bankers' Clearing House, (*d*) Statutory Statement.
6. What are "slips"? Explain briefly the slip system of Ledger posting.

EXERCISE XXVI

1. What do you understand by the "slip system of Ledger posting"? To what classes of business can the system be advantageously applied? Illustrate your answer by giving *pro formâ* posting slips applicable to the business you select.—(*Royal Society of Arts.*)

2. After writing up the Profit and Loss A/c, the general Ledger balances of the Conservative Bank, Ltd., as on 31st December, were as follows: Paid up Capital, £1,500,000; Cash at Bank of England and in hand, £2,600,980; Customers' Current and Deposit Accounts, £17,580,000; Bills Discounted, Loans and Advances, £14,482,000; Freehold Premises, £380,000; Rebate on Bills discounted, not yet due, carried to next account, £24,300; Reserve Fund, £1,200,000; English Government Securities, £1,250,000; other Government Securities, £520,000; Profit and Loss A/c (undistributed balance),

£110,680; Securities pledged with Public Bodies, £81,000; Indian and Colonial Securities, £1,101,000.

On the same date (31st December) the acceptances on behalf of customers, and for which they were liable, appeared in the "Acceptances Book" of the Bank at £1,725,420.

Prepare a Balance Sheet as on 31st December.—(*London Chamber of Commerce*).

3. Describe briefly the books of account which you would expect to find in use in a bank. State what the "General Ledger" of a bank should contain, and what information you would expect it to afford.—(*London Chamber of Commerce.*)

4. On 25th January, John Smith called at the Union Bank of London and paid in the following:—

	£	s.	d.
Gold	25	–	–
Bank of England Notes	50	–	–
Cheque drawn on the Old Bank, York	62	–	–
Cheque drawn on the Joint Stock Bank, Princess Street, E.C.	41	–	–
	£178	–	–

Trace the history of the above items as they would appear in the books of the Union Bank of London.—(*Royal Society of Arts.*)

5. The undermentioned items appear in the General Ledger balances of the Loamshire Bank, Ltd.:—

(*a*) "Cash in hand, £2,462,986 10s. 6d."

What does this item include, and where would you place it in the published accounts of the Bank?

(*b*) "Loans at short notice, £6,541,241 19s. 10d."

Explain briefly what this item would consist of, and denote its proper place in the published accounts of the Bank.

(*c*) "Liabilities of customers on acceptances, £2,572,481 16s. 8d."

What does this item mean, and how would you deal with it in the published accounts of the Bank?—(*London Chamber of Commerce.*)

6. What do you understand by "Rebate on bills discounted," and how would you treat this item when preparing the Profit and Loss A/c and Balance Sheet of a bank?—(*Royal Society of Arts.*)

7. From the following particulars draw up the account of Robert Collins, 12 Lupus Avenue, Leighton, as it would appear in the Bank's Current Account Ledger on 30th June—

19..		£	s.	d.	19..		£	s.	d.
Jan. 5	To cheque, Jones	115	–	–	Dec. 31	By Balance	1,144	7	6
Feb. 3	,, ,, Wilson	20	–	–	19..				
Mar. 3	,, ,, Trumper	75	1	–	Feb. 14	,, Cash	240	–	–
Apr. 5	,, ,, Freeman	24	–	–	Apr. 3	,, ,,	64	–	–
16	,, ,, Paley	41	–	–	May 1	,, ,,	76	–	–
May 12	,, ,, Longe	20	13	6	,, 23	,, ,,	190	–	–
17	,, ,, Fisher	54	5	–					
June 2	,, ,, Smith	74	4	8					
15	,, ,, Self	40	–	–					

Interest to be allowed at 2% p.a. on daily balances, and ½% to be charged on turnover.

8. From the following particulars draw up the account of Frederick Stevens,

27 Montgomery Mansions, Leverbridge, as it would appear in the Bank's Current Account Ledger on 30th June:—

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To balance . .	554	5	6	Jan. 26	By Cash .	137	1	2
19..					Feb. 19	„ „ .	130	5	6
Jan. 17	„ cheque, Self .	20	–	–	Mar. 29	„ „ .	116	4	2
Feb. 12	„ „ Temple .	74	5	6	May 1	„ „ .	98	5	2
Mar. 3	„ „ Grey .	100	–	–					
Apr. 2	„ „ Self .	40	–	–					
23	„ „ Williams	35	–	6					
26	„ „ Roberts.	54	12	2					
June 21	„ „ Mills .	26	4	2					
27	„ „ Thomson	160	4	8					

Interest to be charged at 1% over Bank Rate, with a minimum of 4% p.a. On 31st December the Bank Rate was 3%, on 26th January 3½%, on 29th March 4%, on 21st June 4½%. Overdraft limit, £600. One-quarter per cent. also to be charged on turnover.

9. R. Craven opens a Bank Account on 1st January with the Rosedale Banking Company and deposits on that day £1,000. He pays in as follows: 20th January, £500; 20th March, £600; 20th May, £700; and he draws out on 20th February £1,200, on 20th April £1,000, and on 20th June £500. Calculate the Bank Interest, counting 5% on customer's debit balances and 2% on credit balances, and close the account on 30th June.—(*Incorporated Accountants.*)

10. From the following particulars of a Bank Pass Book calculate the Interest to 30th June, charging 5% on debit balances, and allowing 2½% on credit balances:—

J. Gaukroger in account with the Blankshire Banking Company, Limited.

Dr.		£	s.	d.			*Cr.* £	s.	d.
Jan. 1	To Balance .	2,710	4	–	Jan. 1	By Cash .	27	10	–
„ 15	„ Cash .	280	12	–	„ 30	„ „ .	824	6	–
Feb. 1	„ „ .	420	3	–	Feb. 29	„ „ .	4,172	17	–
„ 15	„ „ .	36	14	–	Mar. 31	„ „ .	718	5	–
Mar. 15	„ „ .	910	2	–	May 31	„ „ .	1,500	–	–
Apr. 15	„ „ .	2,020	3	–	June 30	„ „ .	180	–	
May 15	„ „ .	315	–	–					
June 15	„ „ .	280	–	–					

—(*Incorporated Accountants.*)

11. You are asked to devise as simple a method as possible to enable a firm to check its bank interest. Exemplify your method by ascertaining the rate allowed for credit balances in the following account, where it is known that the charge for overdraft is 5%:—

J B in account with the Northland Banking Company. On 1st April the balance to the credit of J B was £250. J B paid in £850, £170, £200 and £650 on 17th April, 20th May, 13th June and 3rd July respectively; and drew out £400, £1,070, £500 and £400 on 11th May, 4th June, 19th June and 30th July respectively. The total net sum allowed for Interest to 31st August was 12s. 11d. only.—(*Incorporated Accountants.*)

12. The General Ledger of the Loamshire Bank, Ltd., contained the undermentioned balances as on 31st December. Explain briefly what the figures represent, and where they would appear in the Balance Sheet of the Bank.

(1) Current Accounts A/c	£12,674,491
(2) Investments A/c	7,832,922
(3) Rebate on Bills not due	12,466
(4) Short Loans A/c	5,432,768

—(*Royal Society of Arts.*)

13. Explain briefly the methods employed in order to keep the books of a Bank constantly posted.

On 31st July, George Reimers paid in the following to his Bank in the City:—

Cheque (Geo. Smith, London)	£15
,, (Robt. Robinson, London)	20
Gold	10
Bank of England Notes	20

Describe the passage of the above items through the books of the Bank from the moment of their receipt until credited to the account of George Reimers. —(*Royal Society of Arts.*)

14. From the following figures taken from the books of the Camberwell Banking Company, Limited, you are requested to draft as at 31st December (*a*) a Trial Balance, (*b*) a Balance Sheet, (*c*) a Profit and Loss A/c; and then append, as Auditor, your certificate for publication and presentation to the shareholders.

Current and Deposit A/cs	£7,731,450	Cash in hand and at Bank of England	£1,584,750
Acceptances on behalf of Customers	1,200,000	Money at Call and Short Notice	274,250
Capital subscribed, 50,000 shares of £40 each, £25 per share paid	1,250,000	Consols (Reserve Fund)	600,000
Reserve Fund (invested in Consols)	600,000	Consols and Securities guaranteed by British Government	825,000
Profit and Loss A/c, balance to Credit, 1st January	15,300	Colonial and Railway Stocks	637,500
Interest accrued and paid	25,500	English Corporation Stocks	235,500
Current Expenses, Salaries, Rent, etc.	71,250	Bills Discounted	379,500
Amount added to Staff Retirement Fund	3,000	Loans and Advances	4,665,000
Premises A/c, amount written off	22,500	Bank Premises, Furniture, etc.	337,500
Gross Profit for the year after providing for Bad and Doubtful Debts	244,500	Freehold and Leasehold Properties	180,000

—(*National Union of Teachers.*)

15. Name three of the accounts which you would expect to find in the General Ledger of a Bank. Briefly explain their purpose, and describe the sources from which they have been written up.—(*Royal Society of Arts.*)

16. The understated items have been extracted from the accounts of a Bank. Explain briefly what they represent:—

"Liabilities of Customers on Acceptances as per contra." (Cr. side of Balance Sheet).

"Rebate on Bills not due." (Dr. side of Balance Sheet.)

"Money at Call and Short Notice." (Cr. side of Balance Sheet.)

"Bills Discounted." (Cr. side of Balance Sheet.)

—(*Royal Society of Arts.*)

CHAPTER XXVII

EXECUTORSHIP ACCOUNTS

Definition.—Executorship accounts are those accounts which record (1) particulars of the property of which a person dies possessed; and (2) the realisation, administration, and distribution of such property by the deceased's executors or administrators.

The Distinction Between Executors and Administrators.—An executor is appointed by the will of a deceased person to administer and distribute his property in accordance with his wishes as expressed in the will; the executor's authority being derived from the will. An administrator is appointed by the Court to deal with the estate of the intestate person (*i.e.*, one who dies without making a will), and the administrator (whose authority is derived from the Court's appointment) is usually required to enter into a bond to administer and distribute the deceased's property in accordance with the law relating to intestate persons' estates.

Administrators, however, are also appointed in certain other circumstances, including the following :—

(1) Administration *cum testamento annexo* (with the will annexed). This grant is made when a testator omits to name an executor in his will or when a named executor refuses or is unable to act.

(2) Administration *de bonis non*. If an executor dies before completing his duties, his executorship is transmissible to his own executor, hence the latter would continue and complete the administration of the original testator's estate. But where the executor dies without appointing an executor, the appointment is not transmissible to an administrator and a grant of letters of administration *de bonis non* is made to the nearest next-of-kin of the original testator.

(3) Administration *durante absentia*, *i.e.*, during the absence abroad of the person legally entitled to the administration.

(4) Administration *durante minore aetate*, *i.e.*, during the minority of an executor or of a person entitled to act as administrator.

(5) Administration *durante dementia*, *i.e.*, during the lunacy of the person entitled to act as sole executor or administrator.

(6) Administration *pendente lite*, *i.e.*, pending litigation as to the validity of the deceased's will.

(7) Administration *ad litem*, *i.e.*, for purposes of litigation only.

Trustees.—A trustee is a person who holds property in trust for the benefit of other persons. If a testator's will provides that the whole or some part of the estate is to be held in trust for the benefit of some named person or persons, the executor becomes a trustee. In most cases some portion of the estate is invested and the income thereof is payable to certain persons known as life-tenants

either for a specified period or until the happening of a specified event, when the capital reverts to other persons termed "remaindermen." The life-tenant may also be the remainderman, as for example, where the will provides that the income from the property is payable to a named person until he attains a specified age, when the property itself is to be handed over or transferred to that person.

The Duties of Executors and Administrators are as follows:—

(1) To bury the deceased.

(2) To prepare and submit to the Inland Revenue an account showing the deceased's assets and liabilities and pay estate duty thereon.

(3) Executors to apply for probate of the deceased's will; administrators to apply for a grant of letters of administration.

(4) To get in and, where necessary, realise all the deceased's property.

(5) To pay funeral, testamentary, and administration expenses, and debts owing by the deceased.

(6) To pay legacies, legacy and succession duties.

(7) Executors to distribute or deal with the residue in accordance with the deceased's will; administrators to distribute the deceased's estate in accordance with the law relating to intestate persons' property.

(8) To keep accurate accounts of the dealings in the deceased's estate, to render copies of the accounts to the persons entitled thereto, and to obtain a discharge upon the completion of the administration.

The Administration of Estates Act, 1925, confers upon the executors and administrators the same rights of action as the deceased would have had if alive:—

(1) For the recovery of debts due to the deceased and for injury to or right in respect of his personal estate.

(2) For any injury committed to the real estate of the deceased within six months before his death, provided such action is brought within one year after his death.

Similarly, any action may be maintained against the personal representative of a deceased person for any wrong committed by the deceased within six months before his death to another person, but the action must be brought within six months after the personal representative has taken out probate or letters of administration, as the case may be.

Probate and Letters of Administration.—To obtain probate, the executor must obtain the deceased's will and a copy of the death certificate; he must prepare the estate duty account, showing the whole of the property passing on the death of the deceased, and swear an affidavit deposing as to the accuracy of the account. These documents must be lodged with the Probate Registry for

the district in which the deceased resided or at the Principal Registry in London. In the absence of a will, the nearest next-of-kin applies for letters of administration.

Probate contains a copy of the will (issued under the seal of the Probate Court) with a certificate stating the name(s) of the executor(s), the gross value of the estate and the amount of the estate duty paid. " Letters of administration " consists of a certificate of the appointment of the administrator(s), and also states the gross value of the estate and the amount of the duty paid.

Probate and letters of administration respectively form the executor's and administrator's authority to deal with the estate.

Classes of Property.—Property passing on the death of a person is divided into two classes, realty and personalty. Realty consists of freehold property, whilst personalty includes all movable goods and chattels. Leasehold property, irrespective of the length of the lease, is included in personal estate and is termed " chattels real."

Estate Duty.—This is a graduated duty payable on the total net value of all property, real and personal, which passes at the death of a person or of which that person was competent to dispose. From time to time, the duties payable have varied, but the space available does not permit of detailed particulars being given of the various alterations.

The rate of duty on the estates of all persons dying after 30th June, 1925, is fixed by the Finance Act, 1925, as shown in the table given below:—

1925 Scale of Duties.			1925 Scale of Duties.		
Where the Principal Value of the Estate		Estate duty is payable at the rate per cent of	Where the Principal Value of the Estate		Estate duty is payable at the rate per cent of
Exceeds	And does not exceed		Exceeds	And does not exceed	
£100	£500	£1	75,000	85,000	18
500	1,000	2	85,000	100,000	19
1,000	5,000	3	100,000	120,000	20
5,000	10,000	4	120,000	140,000	21
10,000	12,500	5	140,000	170,000	22
12,500	15,000	6	170,000	200,000	23
15,000	18,000	7	200,000	250,000	24
18,000	21,000	8	250,000	325,000	25
21,000	25,000	9	325,000	400,000	26
25,000	30,000	10	400,000	500,000	27
30,000	35,000	11	500,000	750,000	28
35,000	40,000	12	750,000	1,000,000	29
40,000	45,000	13	1,000,000	1,250,000	30
45,000	50,000	14	1,250,000	1,500,000	32
50,000	55,000	15	1,500,000	2,000,000	35
55,000	65,000	16	2,000,000		40
65,000	75,000	17			

Marginal Relief.—Section 13 of the Finance Act, 1914, provides a concession where the value of the estate is slightly in excess of the amount where the rate changes. In such cases the total duty payable is the highest amount of duty at the previous lower rate plus an amount equal to the excess over the particular maximum.

Example.—Estate valued at £15,100.

Duty at 6% on £15,000	£ 900
Add excess over £15,000	100
Total Duty payable	£1,000

In the absence of this concession, the total duty payable would be 7 per cent on £15,100 = £1,057.

Gifts Inter Vivos (during lifetime).—Gifts made by the deceased within three years of the date of death are liable to estate duty unless any such gift (1) was part of the deceased's reasonable normal expenditure; (2) did not exceed £100 to any one person; (3) was made in consideration of marriage; or (4) was made for charitable or public objects. Charitable, etc., gifts exceeding £100 are liable to estate duty if made within twelve months of death.

Donationes Mortis Causa.—A gift of personalty in anticipation of the donor's death, made conditionally upon it becoming absolute only on death and revocable during the donor's lifetime, is also liable to estate duty.

Unless the will otherwise directs, the estate duty on *donationes mortis causa* and gifts *inter vivos* is payable by the recipient and not by the executors. Particulars of the property and its value, however, must be included in the estate duty account, and if the executors are called upon to pay the duty, they must recover the amount from the recipients.

Concessions.—If property consisting of land or businesses (but not a business carried on by a company) becomes liable to estate duty within five years of the same property having previously paid duty, the following reductions are made in the duty payable on the second death:—

	Reduction.
Where death takes place within 1 year of the first death	50%
" " " 2 " "	40%
" " " 3 " "	30%
" " " 4 " "	20%
" " " 5 " "	10%

If, however, the value of the property has increased, these percentages are calculated on the value at the date of the first death.

Where the estate duty has to be paid to a foreign government on personalty in that foreign country, the amount of duty paid may be deducted as a debt owing by the deceased. Colonial estate duty payable on property in the British colony or possession, however, may be deducted from the British estate duty payable in Great Britain in respect of such property.

Deductions from the gross value of the estate are allowable for :—

(1) All debts owing by the deceased for consideration given in money or money's worth to persons resident in Great Britain. Debts owing to persons resident abroad cannot be deducted unless they have been contracted to be paid in Great Britain or charged on property in Great Britain.

(2) Reasonable funeral expenses, but not including the cost of mourning, tombstone, etc.

Allowances may also be claimed for expenses (not exceeding 5 per cent. on the value of the property) incurred in administering or realising foreign property.

Small Estates.—Estates under £100 are exempt from estate duty. Where the **gross** value is less than £300, a fixed duty of £1 10s. 0d. may be paid, and where the **gross** value is between £300 and £500 the fixed duty is £2 10s. 0d. Interest is not chargeable on the fixed duties if they are paid within twelve months of the date of death. These fixed duties are optional in place of the graduated duty on the **net** value, but they are usually adopted.

Interest.—The estate duty on personalty is deemed to be due and payable as on the date of death, and interest at the rate of 4 per cent. per annum is charged from the date of death until payment is made. Interest is not chargeable on the estate duty on realty until twelve months after death.

Realty.—The estate duty on real property may be paid by eight equal yearly or sixteen equal half-yearly instalments, with interest at 4 per cent. per annum from the date at which the first instalment is due, viz., twelve months from date of death. The Inland Revenue, however, will accept part of the estate itself as payment of the duty on realty and, in that event, the conveyance is exempt from stamp duty.

The estate duty on the real property is payable out of the property itself, but the interest on this duty is a charge on the income arising out of the property.

Corrective Affidavit.—It very frequently occurs that, at the time of lodging the Estate Duty Account with the Inland Revenue, it is not possible to ascertain (1) the true total of all the deceased's property liable to estate duty, (2) the full amount of the liabilities which should be deducted, or (3) the true value of some portion

of the estate and, accordingly, the estate duty account is declared to be true and correct, "as far as, at present, can be ascertained."

Further, errors may subsequently be discovered either in the undervaluation or in the overvaluation of assets or liabilities. In all these cases, corrective affidavits giving full particulars must be lodged so that the estate duty on the total may be adjusted and any excess duty paid or refunded as the case may require.

Estate Duty Account.—As already suggested, this account is required by the Inland Revenue for the assessment of estate duty; it must be rendered on the official forms supplied by the Inland Revenue authorities, and lodged with the Probate Registry at the same time that application is made for the grant of probate or letters of administration.

The official form is divided into different sections for the various classes of property of which the deceased died possessed. The principal sections are as follows :—

Account No. 1. First part : Personal property situate in Great Britain.

Second part : Real property situate in England.

Account No. 2. Personal property situate abroad.

Schedules are attached containing particulars of the deceased's debts, funeral expenses and incumbrances (charges on property).

Valuation of the Estate.—The executor should prepare an inventory of the whole of the deceased's property and have the various assets valued by professional valuers or other responsible persons.

Investments and Stock Exchange securities are valued at the market price as at the date of death. Where two prices are given in the quotation (*e.g.*, A. B. Co., Stock 60-62 per £100 stock) one-fourth of the difference is added to the lower price and, therefore, the above example would be valued at 60½ for estate duty purposes.

Accrued income (rents, interest, dividends, etc.) up to the date of death must be included, except, however, where Stock Exchange securities are quoted *ex div.* the quotation is deemed to include the accrued income and where no adjustment is needed. Similarly, charges against the estate for accrued interest on mortgage, etc., must also be brought into account.

For public funds, most of which are quoted "ex div." for about one month prior to the date when the interest is due and payable, the full dividend must be added to the market *ex div.* price, since a seller at the quoted price would get that price and would also receive the dividend.

If the deceased was a partner in a firm, the value of his interest in the partnership must be stated in one amount, but if the deceased

was in business on his own account, then the whole of the assets and liabilities of the business as at the date of death must be included in the account.

Example.—Prepare the Estate Duty Account in respect of the property of Arthur Mills who died on 31st August, 1926.

	£
Cash in House	25
Cash at Bank on current account	200
Cash on Deposit at Bank, bearing interest at 2% p.a. from 30th June, 1926	2,500
Household Furniture and Effects valued at	1,250
Insurance Policy with Bonus	3,500
Freehold Premises occupied by deceased at date of death valued at (Subject to mortgage of £2,500 at 5% per annum, interest payable half yearly on 1st January and 1st July.)	5,000
Loan advanced by deceased on mortgage, with interest at 6% p.a., payable half yearly on 30th June and 31st December.	5,000
£8,000 Consols (2½%), valued at 70½ ex div. Quarter's dividend on Consols due 5th October.	5,640
£10,000 4½% Exe Corporation Debentures, Interest payable half yearly on 31st March and 30th September valued at 91 cum div.	9,100

The funeral expenses (including tombstone, £20) amounted to £80, and the debts owing by deceased at date of death were £280.

The affidavit was lodged on 30th November, 1926.

ESTATE DUTY ACCOUNT.

FIRST PART. PERSONAL PROPERTY.

	£	s.	d.	£	s.	d.
Cash in House				25	–	–
Cash at Bank on current account				200	–	–
Cash at Bank on deposit account				2,500	–	–
Interest accrued thereon, 2 months at 2%				8	6	8
Household Furniture and Effects				1,250	–	–
Insurance Policy with Bonus				3,500	–	–
Loan on Mortgage				5,000	–	–
Interest accrued thereon, 2 months at 6%				50	–	–
£8,000 2½% Consolidated Stock at 70½ ex div.				5,640	–	–
One Quarter's Interest thereon, due 5th Oct.				50	–	–
£10,000 4½% Exe Corporation Debentures valued at 91 cum div.				9,100	–	–
				27,323	6	8
Deductions.						
Creditors as per Schedule	280	–	–			
Funeral Expenses (Tombstone not allowed.)	60	–	–			
				340	–	–
Net Personalty				£26,983	6	8

SECOND PART. REAL PROPERTY.

	£	s.	d.
Freehold Premises situate at . . . in occupation of deceased at date of death . . .	5,000	–	–
Less Mortgage thereon . £2,500 – –			
„ Interest accrued 2 months at 5% 20 16 8			
	2,520	16	8
Net Realty	£2,479	3	4

SUMMARY OF AFFIDAVIT.

	£	s.	d.
Net Personalty	26,983	6	8
Net Realty	2,479	3	4
Net Aggregate Value of Estate . . .	£29,462	10	–
Duties Payable :—			
10% on net personalty, £26,983 6s. 8d. .	2,698	6	8
10% on net realty, £2,479 3s. 4d. . .	247	18	4
Interest on net personalty duty—			
4% on £2,698 6s. 8d. for 3 months . .	26	19	8
Total Duty and Interest payable . . .	£2,973	4	8

APPORTIONMENT

Definition.—Apportionment is the legal or equitable division of sums of money—either receipts or payments—amongst the persons beneficially entitled thereto or interested therein.

In its application to executorship accounts, apportionment is necessary because:—

(1) Estate duty is payable upon the whole capital, and the latter includes the proportion of income which has accrued to date of death.

(2) The life-tenants, *i.e.*, the persons entitled to the income of the estate, are entitled only to that portion of the income which has accrued subsequent to the date of death, hence rents, interest, dividends, etc., covering a period before and after death, must be apportioned between the estate and the life-tenant. The portion of the income which has accrued to date of death is regarded as capital and forms part of the estate which ultimately passes to the remainderman.

(3) In certain cases, expenditure incurred and losses on

realisation are divisible between the life tenant and the remainderman (see *post*).

The Apportionment Act, 1870, provides that " all rents, annuities, dividends, and other periodical payments in the nature of income (whether reserved or made payable under an instrument in writing or not) shall, like interest on money lent, be considered as accruing from day to day, and shall be apportionable in respect of time accordingly." An apportionment made under this Act is termed a legal apportionment.

Profits of a partnership and the profits from a voyage of a single ship privately owned are not apportionable ; if received after death, such profits are regarded as wholly income. Rent payable in advance also is not apportionable ; and if received before death is wholly capital, even and although the rent covers a period extending beyond the date of death.

Interim Dividends are considered as being received on account of the full dividend for the complete year. When the final dividend is received, the total for the year is ascertained and the apportionment made upon that basis. Interim dividends received before death are treated as capital, and no alteration can be made even if an apportionment shows that capital has received more than its theoretically correct share of the dividend.

ARREARS OF CUMULATIVE PREFERENCE DIVIDENDS

Where dividends on Cum. Pref. shares are in arrear at date of death, but are received subsequently, such dividends are apportioned over the period in which the profits are earned. (*In re Taylor ; Mathieson v. Taylor.*)

For example, a testator dies on 30th September, 1924, holding shares in a company which, owing to losses, is unable to pay its cum pref. dividend for the year 1923. During 1924, however, the losses are made good and sufficient profits are earned to pay one year's dividends. This dividend, when received, is apportioned over the year 1924 ; nine months to 30th September being capital and the remaining three months income.

Dividends paid out of profits wholly earned in a period subsequent to death are wholly income, although the dividend may be declared for a period earlier than the date of death.

Apportionment of Payments.—All payments (outgoings) in respect of rent, ground rent, rates and taxes, etc., which cover periods before and after the date of death are apportionable in the same manner as income received.

Executorship Expenses.—The expenses incurred in proving the will, funeral expenses, estate duty, expenses of realising and protecting the estate are chargeable against capital, but interest on

estate duty, and all expenses of carrying on the trust are chargeable against income.

Changes of Investments.—On the sale of investments, the whole of the proceeds belong to capital, and profits or losses arising from such sale are applicable solely to capital; they are not apportionable. Further, where the investments are sold, the life tenant is not entitled to any apportionment of the proceeds. On the other hand, if the sale proceeds are re-invested, the life-tenant is entitled to the full amount of the next dividend on the new investment. Where, however, the purchase is made *cum div.* after the dividend has been declared, the dividend (when received) is credited to capital (*re Sir Robert Peel's Settled Estates*, 1910).

Example of Apportionment of Rent and Sch. A. Income Tax.—A testator died on 10th November, 1924, and his estate included House Property let at £120 per annum, the rent being payable on the usual quarter days. The assessment for income tax (Sch. A) was on £90 at 4s. 6d. in the £.

Rent due 25th December, 1924, £30 (29th Sept. to 25th Dec. = 87 days).

29th Sept. to 10th Nov. = $\frac{42}{87}$ of £30 =	£14	9	8	Capital
10th Nov. to 25th Dec. = $\frac{45}{87}$ of £30 =	15	10	4	Income.
	£30	–	–	

Income Tax Assessment for year 6th April, 1924, to 5th April, 1925 = £90 at 4s. 6d. = £20 5s. 0d.

Apportionment—

6th April to 10th Nov = $\frac{212}{367}$ of £20 5s. 0d. =	£12	3	–	Capital
10th Nov. to 5th April = $\frac{155}{367}$ of £20 5s. 0d. =	8	2	–	Income.
	£20	5	–	

The proportion of rent accrued to date of death, £14 9s. 8d., is included in the estate duty account as part of the deceased's property, whilst the proportion of unpaid income tax is shown as a liability due from the deceased.

When the rents are received, similar apportionments are made between capital and income. It must be borne in mind, however, that the income tax is payable (in the first instance) by the tenant in two equal instalments, due on 1st January and 1st July following, and the tenant deducts the tax from the next payment of rent. Hence these deductions usually occur in the March and September quarters.

For the sake of clearness, some authorities consider it desirable for the gross amount of rent to be entered in the Cash Book as though it were received in full, and for the income tax deduction to be entered on the credit side of the Cash Book as though it were

an actual payment. If this method is adopted, the Cash Book entries will appear as follows:—

Dr. CASH BOOK. *Cr.*

	Receipts.	Income. £	s.	d.	Capital. £	s.	d.		Payments.	Income. £	s	d.	Capital. £	s.	d.
1924 Dec. 28	To Property A/c: Rent to 25th Dec., £30, 42 days capital				14	9	8	1925 Mch. 25	By Income Tax on Property,* 1st instalment	4	1	–	6	1	6
	45 „ Income	15	10	4				Sept. 29	„ Income Tax on Property, 2nd instalment .	4	1	–	6	1	6
1925 Mch. 25	„ Property A/c, Rent to 25th March . .	30	–	–											
June 30	„ Property A/c, Rent to 30th June . .	30	–	–											
Sept. 29	„ Property A/c., Rent to 29th Sept. . .	30	–	–											

* Note.—Each instalment of income tax represents half of the total liability and each instalment, therefore, must be apportioned between capital and income.

EQUITABLE APPORTIONMENTS

This class of apportionments is governed by certain rules of Chancery and has for its object the equitable adjustment of the relative rights of the life-tenant and the remainderman; this method is adopted in those cases where the legal method under the Apportionment Act, 1870, cannot be applied. These rules are based on the decisions which have been given in cases reviewed by the Court of Chancery, and the more important of these rules are known by the names of the cases.

The Rule in Howe v. Lord Dartmouth, 1802.—This rule is applied in those cases where a residuary bequest of personalty consists of property of a wasting and hazardous or reversionary nature, and is based on the principle that the capital must be preserved for the benefit of *all* parties interested therein. Unless the will specifically directs that the wasting or hazardous property is to be retained for the benefit of the life tenant, the Court assumes that it was the testator's intention that both the life tenant and the remainderman should share in the benefits derivable from the capital.

Obviously, the wasting or hazardous property may yield a large income for a few years, but eventually the residual value of the property may be considerably reduced to the detriment of the remainderman. Hence the rule (subject to the terms of the will) that such wasting property should be realised and the proceeds invested in authorised trustee securities. The life-tenant takes the income therefrom and the capital is preserved intact for the remainderman.

For the period from the date of death to the date of realisation of the wasting asset, the life-tenant is entitled to interest at, say, 4 per cent. per annum on the value of the asset at the date of the death (or on such interest as would have been produced if the asset had been sold at that price and the proceeds invested in Consols).

This rule applies only to bequests of personalty, including leaseholds; it does not apply to real estate.

Where unauthorised investments (not necessarily of a wasting, hazardous, or reversionary nature) are improperly retained by the executors, the same principle is applicable. (*Dimes* v. *Scott*, 1828, and *Brown* v. *Gellatly*, 1867.)

Loss on Realisation of a Mortgage Security.—It was decided in *re Atkinson*, 1904, that where a loss is sustained on the realisation of a mortgage security, the principal sums owing, and all arrears of interest, are to be added together and the amount realised on sale of the security is to be apportioned between capital and income in the proportion which the total interest in arrear bears to the principal sum owing on the mortgage.

For example, property is mortgaged for £1,000 but the interest falls in arrear. Subsequently, the trustees take possession and the property is sold for £990; the arrears of interest amounting to £100. Applying the rule in *re Atkinson*, the sale proceeds are divided between the life-tenant and remainderman as shown in the following account.

Dr. MORTGAGE ON PROPERTY. *Cr.*

	Income.	Capital.		Income.	Capital.
	£	£		£	£
To Balance . .		1,000	By Cash, £990 (proceeds of sale) apportioned thus—		
„ Transfer to Income Account . .	90		Capital: $\frac{1,000}{1,000 + 100}$ of £990		900
			Income: $\frac{100}{1,000 + 100}$ of £990	90	
			„ Transfer to Estate (loss) . . .		100
	£90	£1,000		£90	£1,000

Reversionary Interests.—Where the estate includes reversionary interests, the rule in *re Earl of Chesterfield's Trusts* decides the method of apportionment between the life-tenant and the remainderman. In such cases, the reversionary interest does not produce

income, and the life-tenant cannot receive anything until the reversion is realised or falls into the estate. The rule provides that it must be ascertained what sum, invested at the date of the testator's death at 3 per cent. compound interest would, on the date of realisation, amount to the sum received; this amount is capital, and the balance is income.

The Rule in Allhusen v. Whittell.—This rule is based on the assumption that the payment of the deceased's debts and legacies is not made until the end of the first year, and that, as the money retained through the delay produces income, the life-tenant's income is proportionately increased. Accordingly, the rule provides that as the moneys required for payment of expenses, debts, and legacies, etc., are not part of the residue a life tenant is not entitled to interest thereon whilst the moneys remain in the hands of the executors; and, therefore, the payments must be borne rateably by capital and the first year's income.

Example.—Estate valued at £25,000 gross; the first year's income is £1,000; and the debts, expenses, legacies, etc., amounted to £5,200. Under the rule, the apportionment of the payments is as follows :—

$$\text{Capital}: \frac{25{,}000}{26{,}000} \text{ of } £5{,}200 = £5{,}000$$

$$\text{Income}: \frac{1{,}000}{26{,}000} \text{ of } £5{,}200 = \quad 200$$

$$£5{,}200$$

£200 is, therefore, charged against the first year's income and the life tenant receives the balance, viz., £800.

In practice, however, debts and legacies are often paid before the end of the " executor's year," and the above rule was modified in *re McEuen*, 1913, to the extent that the life-tenant is entitled to the whole of the first year's income subject to a deduction of interest at 4 per cent. per annum upon the capital sum which would, with such interest, make up the total amount paid for debts, expenses, legacies, etc. The interest is calculated from date of death to the actual date of the various payments.

Strictly speaking, this rule should always be applied where there are both " life-tenants " and remaindermen; but it does not apply if there are no life-tenants. Testators may, however (and usually do), exclude the application of the rule by giving directions to that effect in the will.

Annuities.—The correct apportionment of annuities bequeathed by will sometimes presents questions of difficulty, and it is necessary to take into consideration the circumstances of each case and the precise wording of the will, so as to give effect to the intentions of the testator.

Where, however, the deceased, during his lifetime, *contracted* to

pay an annuity to another person for life, it is clear that the *capitalised value* of the annuity at the date of death is a charge against capital. The cases are so conflicting that it is impossible to lay down a fixed rule. In *re Dawson* (1906), where a testator had died owing an annuity, an apportionment was directed. In *re Henry; Gordon* v. *Gordon* (1907), this was disapproved, and an amount advanced by the tenant for life to buy out the annuitant was directed to be repaid to him out of capital. In *re Perkins* (1907), an apportionment was directed. The cases were reviewed in *re Poyser* (1910), where *re Dawson* and *re Perkins* were followed in preference to *re Henry*.

The following is an example where the annuity is apportioned:—

Example.—Annuity of £60 payable half-yearly on 30th June and 31st December. Date of death is 31st December, 19....

First Instalment—			
Capital: $\frac{100}{100+1\frac{1}{2}}$ of £60	£59	2	4
Income, 6 months' interest at 3% on £59 2s. 4d. .		17	8
	£60	–	–
Second Instalment—			
Capital: $\frac{100}{100+3}$ of £60	£58	5	1
Income: 12 months' interest at 3% on £58 5s. 1d. .	1	14	11
	£60	–	–

and so on each half year until the death of the annuitant.

LEGACIES

A legacy is a gift of personalty by will and is sometimes termed a bequest. Gifts of real property by will are known as devises. There are three principal classes of legacies: (1) general, (2) demonstrative, and (3) specific; but other descriptive terms also used are vested, contingent and residuary legacies.

A *general* legacy (sometimes termed a general pecuniary legacy) is a gift of money payable out of the general funds of the estate, whilst a *demonstrative* legacy is a gift of money payable out of a particular fund which is "demonstrated" or pointed out, *e.g.*, "I give and bequeath £100 out of the moneys on deposit at Lloyds Bank." If the demonstrated fund is not in existence at the date of death, the legacy is payable out of the funds of the general estate.

A *specific* legacy is a gift of some specific article or property in the testator's possession at the date of death, *e.g.*, "my gold watch and chain." If, however, the testator has—during his lifetime—disposed of the subject-matter of the specific bequest, the legacy is said to be "adeemed" and, therefore, the legatee loses his right to the legacy.

Usually, specific legacies are left "free of duty" as obviously the duty cannot be collected by deduction as in the case of a gift

of money. If not so left, the executor must obtain the duty from the legatee before transferring the legacy.

The distinction between *contingent* and *vested* legacies requires to be carefully noted. A contingent legacy is one which is payable only upon the occurrence of a certain event, as, for example, the bequest to a child *if and when* he attains the age of twenty-one. If the child dies before that age, the legacy is not payable. A *vested* legacy is one where the time of payment is merely postponed, *e.g.*, a gift payable at a stated date, the legatee meanwhile receiving the income therefrom. Such a legacy vests immediately in the legatee as at the date of death of the testator, and if the legatee dies before the specified date, the legacy forms part of the legatee's estate. A *residuary* legacy is a gift of the balance of the personal estate (or a part thereof) after the debts and particular legacies have been paid.

Lapse.—Generally speaking, if the legatee dies before the testator, the legacy lapses, *i.e.*, is not payable, and falls into the residue of the testator's estate. The exceptions are:—

(1) Vested legacies (*see* above).

(2) Where a legacy is left to a child of the testator, and that child has predeceased the testator, leaving issue. In such cases, the legacy is payable as though the child had died immediately after the testator, and, therefore, it would be dealt with in accordance with the child's will or, if there is no will, according to the law of intestacy. Estate duty thereon is payable twice, once by the parent's estate and once by the child's estate. (*Re John Scott, Junr.*, 1900.)

(3) Where the legacy is charged on land. In this case it does not lapse, but ceases to be payable, and the land on which it is charged benefits.

Ademption.—Where a testator in his will bequeaths a specific legacy, *e.g.*, a diamond ring, to a named person, but during his lifetime he disposes of the article, the legacy (as stated above) is said to be "adeemed," *i.e.*, it is void and of no effect by reason of the testator's disposal of the article.

The Executor's Year.—The executor is allowed one year in which to settle the deceased's affairs, realise the assets, and pay the debts, expenses, and legacies, but in many cases it is not possible to complete the administration within that period. If the legacies are not paid within twelve months of death, the legatees are entitled to interest at 4 per cent. per annum.

Interest is, however, payable on the following legacies from the date of death:—

(1) Legacies to children where no other provision is made for their maintenance.

(2) Demonstrative legacies whilst the demonstrated fund is in existence.

(3) Specific legacies where the subject-matter itself bears interest.

(4) Legacies bequeathed in satisfaction of a debt.
(5) Legacies charged on land.

Legacy and Succession Duties.—Legacy duty is payable upon bequests of personalty whilst succession duty is payable upon devises of real property. Both classes of duties are at the same rates, which are as follows :—

(1) Legacies or devises to the husband, wife, or lineal ancestors or descendants are subject to 1 per cent. duty; but the 1 per cent. is not payable: (*a*) Where the total of the property passing does not exceed £15,000; or (*b*) the total net value of the legacy does not exceed £1,000; or (*c*) the beneficiary is the widow or a child under twenty-one years of age of the testator and the total value of the legacy does not exceed £2,000.

(2) Legacies or devises to brothers, sisters, and their descendants, (nephews, nieces, etc.), and the husbands or wives of such persons are subject to 5 per cent. duty.

(3) Legacies or devises to any other person are subject to 10 per cent. duty.

Legacy duty is also payable on *donationes mortis causa*, but not on gifts *inter vivos*.

Exemptions from legacy and succession duty are :—

(1) On legacies or devises where the total net value of the estate (on which estate duty has been paid) does not exceed £1,000.

(2) On legacies or devises to the Royal Family.

(3) On specific bequests under the value of £20.

(4) On legacies or devises of articles of historic or scientific interest bequeathed to a public body.

Payment of the Duties.—The executors are responsible to the Inland Revenue for the payment of the legacy duties; they must deduct from the legacy the appropriate duty and hand it to the Revenue within twenty-one days of the payment of the legacy. If the testator bequeaths the legacy "free of duty" the legacy is payable in full and the duty is paid out of the general funds of the estate.

Succession duty becomes due and payable when the devisee takes possession of the property or becomes entitled to the income therefrom. It must be paid by the recipient of the gift, unless the testator, by his will, otherwise directs.

Abatement.—The payment of the testator's debts precedes the payment of legacies, and in the event of the assets being insufficient to pay all the legacies in full, they "abate" proportionately, according to their class. General legacies are affected first, abating proportionately amongst themselves, then the specific legacies. Demonstrative legacies abate with specific if the fund from which they are payable exists; but if the fund is not in existence at the testator's death, they abate with the general legacies.

Example.—The balance of X's estate after payment of debts, funeral, testamentary expenses, and estate duty is represented by household furniture and effects, valued at £1,000, and cash £16,000. By his will X bequeathed the following legacies :—

	Specific.	General.
	£	£
Widow : Furniture, Free of duty	1,000	
Cash " "		9,000
Son : Cash		5,000
Daughter (under 21), cash		5,000
Private Secretary (stranger)		100
The legacy duties on the duty free bequests (which are treated as general legacies) are—		
Furniture at 1%		10
Cash at 1%		90
	£1,000	£19,200

Each legatee will therefore receive $\frac{16,000}{19,200}$ (say, $\frac{5}{6}$ths) of his or her legacy, and the available cash will be divided thus :—

	£	s.	d.	£	s.	d.
Widow, $\frac{5}{6}$th of £9,000, duty free.				7,500	–	–
Son, $\frac{5}{6}$th of £5,000	4,166	13	4			
Less Legacy duty at 1%	41	13	4			
				4,125	–	–
Daughter, $\frac{5}{6}$th of £5,000	4,166	13	4			
Less Legacy duty at 1%	41	13	4			
(Legacy being over £2,000, duty is payable)				4,125	–	–
Private Secretary, $\frac{5}{6}$th of £100	83	6	8			
Less Legacy duty at 10%	8	6	8	75	–	–
Amount payable in cash to legatees				15,825	–	–
Legacy duty payable to Inland Revenue—						
Widow, 1% on £7,500	75	–	–			
Son 1% on £4,166 13s. 4d.	41	13	4			
Daughter, 1% on £4,166 13s. 4d.	41	13	4			
Private Secretary, 10% on £83 6s. 8d.	8	6	8			
Widow, Furniture, 1% on £1,000	10	–	–			
				176	13	4
				£16,001	13	4
Cash available from estate	16,000	–	–			
Proportion of duty on furniture payable by widow $\frac{1}{5}$th of £10	1	13	4			
				£16,001	13	4

Residuary Account.—This account is made up as at the date when the residue of the estate (1) is distributable amongst the residuary legatees or (2) is retained by the executors in trust for the beneficiaries. It must be submitted to the Inland Revenue in order that the correct legacy or succession duties may be assessed.

The whole of the property must be brought into account at the price realised for those assets which have been sold, whilst unrealised assets must be valued at the market price as at the date of the account. Income earned by the estate up to the date of distribution or retention also must be included. Payments made up to the date of the account for the deceased's debts, funeral expenses, estate, legacy and succession duties, legacies and devises, annuities, testamentary and administration expenses are deducted and legacy duty is payable on the distributable residue.

An example of the Residuary Account is given on page 1025.

The Residuary Legatees are entitled to a copy of the executor's accounts. Usually this takes the form of a Cash Account, showing the realisation and distribution of the estate, but particulars must also be given of all specific legacies, *i.e.*, articles or investments, etc., which are transferred intact to the beneficiaries.

INTESTACIES

Intestate Persons' Estates.—In the absence of a will, the distribution of the deceased's estate is governed by the law of intestacy, and this is dependent upon the date of death of the deceased person, viz., whether that event occurred before or on or after 1st January, 1926.

Under the old laws of succession, there were totally different rules for the distribution of real estate (freehold property) and personal estate in intestacies, but the new Administration of Estates Act, 1925, abolished all the old rules as from 1st January, 1926, the distribution of real and personal estate being placed on exactly the same basis.

For persons **who died before** 1st January, 1926, the law is found in the Statutes of Distributions as amended by the Intestate Estates Act, 1890. The latter Act provides that where a man dies intestate, *leaving a widow and no children*, the widow is entitled to the first £500, this amount being chargeable proportionately against the real and personal estate. If the total value is under £500, the widow takes the whole. For purposes of this Act, the real estate is to be valued at twenty years' purchase of the annual value for income tax purposes.

Personalty.—The principal rules relating to the distribution of personal estate of intestates who died before 1st January, 1926, are:—

(1) *If the intestate leaves a widow and no children*, the wife takes the first £500 and half the balance over that amount, the other half going to the next-of-kin in equal degree of relationship to the deceased. If no next-of-kin, the Crown takes the other half.

(2) *If the intestate leaves a widow and children*, the widow takes one-third; the balance goes to the children equally *per capita*; the children of a deceased child taking their parent's share equally between them.

(3) *If the intestate leaves children and grandchildren*, the children take equal shares, the grandchildren dividing their parents' share equally between them.

(4) *If the intestate leaves no widow or children*, all the property is divisible between the next-of-kin of equal degree. If no next-of-kin, all goes to the Crown.

(5) *If a wife dies intestate*, the husband takes the whole, whether there are children or not.

(6) *If there is no husband, wife, children, or their descendants*, the next-of-kin rank in the following order: Father, the whole; mother, brother, sisters and their children equally; grandfathers equally; grandmothers equally; aunts equally; cousins and great-grandchildren equally.

Per capita (by the head). This expression is used where parties participate in the estate by their own right, *e.g.*, children sharing equally.

Per stirpes (by the stem or stock). This expression is applied when parties participate by representation, *e.g.*, children of a deceased child taking their parents' share equally between them.

Real Estate of Intestate Persons.—The rules for the devolution of real estate of persons who died before 1st January, 1926, are more complicated than those for personal estate, but the following outline indicates the main principles. Students desiring more detailed information should consult a legal text-book on the subject. Real property (freehold or copyhold land, houses, etc.) passes to the heir-at-law, who is primarily the eldest son of the deceased, or failing the eldest son, to his issue, whether male or female, males taking preference over females. If there is no direct issue (children, grandchildren, etc.), the property passes to the nearest ancestor and his issue, paternal ancestors taking precedence over maternal ancestors.

The foregoing rules, however, are subject to the widow's right to a life interest in one-third of the real estate, and to the provisions of the Intestate Estates Act, 1890, as to the proportion of the first £500 payable, in certain cases, to the widow.

Estates of Intestate Persons who Died on or After 1st January, 1926.—The Administration of Estates Act, 1925, abolishes the two different methods of treatment for real and personal estate, and from 1st January, 1926, both classes of property are dealt with on the same basis. Further, women are now placed on terms of absolute equality with men. Formerly, the husband had greater rights than the wife, and men were given a preference in the devolution of freehold property.

The principal rules under the new Act are as follows:—

(1) *If an intestate person leaves a husband or wife without children* and without any other blood relation within the table defined in the Act, the surviving husband or wife, as the case may be, takes everything absolutely.

(2) *If the intestate person leaves a husband or wife and children,* the surviving husband or wife, as the case may be, takes:—

(*a*) All the personal chattels (furniture and other personal effects, etc.) absolutely;

(*b*) £1,000 free of all death duties and costs with interest thereon from date of death at 5 per cent. per annum until payment is made.

(*c*) The income of one-half of the remainder of the estate.

The residue of the estate is to be held on "statutory trusts" for the benefit of the children. Under these statutory trusts, the property is to be held in equal shares for all the children who are living at the time of the intestate's death and who attain the age of 21 or marry under that age. If any child of the intestate predeceases the intestate person, his children who survive the intestate and attain the age of 21 or marry will take their parent's share between them.

(3) *If the intestate person leaves a husband or wife and no children* but some other relatives, the surviving husband or wife takes:—

(*a*) and (*b*) As in No. 2 above;

(*c*) The income of the whole of the remainder of the estate.

The residue is vested in statutory trusts for the benefit of the surviving relatives, according to the degree of kinship (see Nos. 4 to 6).

(4) *If the deceased leaves no children, or grandchildren, but both parents,* the residue of the estate is held in trust for the father and mother in equal shares absolutely, subject to the rights of the surviving husband or wife as in No. 2.

(5) *If the deceased leaves no children or grandchildren but one parent,* the residue of the estate is held in trust for that parent, subject to the rights of the surviving husband or wife as in No. 2.

(6) *If the deceased leaves no children, no grandchildren, and no parent,* then (subject to the rights of the surviving husband or wife

as in No. 2) the residue of the estate is held in statutory trusts for the relatives in the following order:—

(*a*) Brothers and sisters of the whole blood and their children.

(*b*) Brothers and sisters of the half-blood and their children.

(*c*) Grandparents in equal shares.

(*d*) Uncles and aunts (being brothers and sisters of the whole blood of a parent of the intestate) and their children.

(*e*) Uncles and aunts (being brothers and sisters of the half-blood of a parent of the intestate) and their children.

(*f*) The surviving husband or wife absolutely.

(7) *If there are no husband or wife and no relatives* as mentioned above, the whole of the residue of the estate goes to the Crown.

The new Act also contains certain provisions relating to the administration of these statutory trusts, the maintenance of children during their minority, etc., and the rights, duties and responsibilities, etc., of executors or administrators. For details of these provisions, students are referred to the Act itself or to a legal text-book dealing with that Act.

Hotchpot.—This term is used to denote the bringing into account of a sum of money advanced by a parent during lifetime to a child for any purpose *except education*. This amount is added to the personal estate before it is divided. If, however, the advancement is greater than the beneficiary's share, the beneficiary cannot be called upon to repay anything, but, of course, he must not participate in the division.

Advancements brought into hotchpot operate only for the benefit of other children; the widow cannot claim any benefit therefrom.

Example.—After realising assets, paying duties, debts, etc., there remains £1,200 cash to divide in A's estate. A died intestate, leaving a widow and two children, C and D, the latter of whom had received, during his father's lifetime, an advance of £300 on marriage:—

Cash to divide		£1,200
D's advance brought into hotchpot		300
		£1,500
Widow takes one third of £1,200		£400
C " " " plus ½ of £300		550
D " " " " "	= 550	
Less his advance	300	250
		£1,200

In the administration of the estates of persons who died before 1st January, 1926, the rule as to bringing into hotchpot of advances

applies only to intestacies; it does not apply where there is a will, unless the will itself contains a hotchpot clause.

For the estates of persons who died on or after 1st January, 1926, the Administration of Estates Act, 1925, applies the **Hotchpot Rule** both to intestacies and partial intestacies. A partial intestacy is one where a deceased person in his will disposes of only part of his property, and in such cases any children or grandchildren of the deceased must bring into account any benefits that they receive under the will. Other persons, however, need not do so.

THE EXECUTORS' ACCOUNTS

The Books Required.—The books of account to be kept by executors comprise the Journal, Cash Book, and Ledger. For large estates, where there are several executors, a minute book also should be kept to record particulars of the executors' transactions and decisions at their meetings; the record being signed by those present.

The Editor does not advocate the use of a Journal, as he supports the view that each Ledger Account should contain full details of every transaction. No principle is involved—the result achieved, as a matter of figures, being the same in both cases; but where the Journal is used, the tendency is for details of the transaction to be recorded in the Journal only and for the Ledger accounts to consist of a bald, meaningless summary.

The technical nature of executorship accounts necessitates that they afford clear, concise summaries of the various transactions, and this result is achieved only when full details are given in the Ledger accounts.

Many practitioners and teachers prefer the use of a Journal, more especially as it affords some real benefit to students who are approaching the subject for the first time; and for their benefit the entries in the present example have been made by means of a Journal.

If there are many properties for which rents have to be collected, or the estate includes a large number of investments, it is desirable to keep a rent roll and an investment register in which to record respectively full particulars of the properties and the investments.

The Journal.—An epitome of the will (as a memorandum and for purposes of reference) should be written in the first pages of the Journal so as to avoid the necessity of repeated reference to the will itself. Some authorities recommend that copies of the Estate Duty Account, Legacy, Succession, and Residuary Duties Accounts also should be entered in the Journal.

The opening entries should be made upon the basis of the probate values shown in the Estate Duty Account; the Estate Account

being credited with the probate values of the assets and the debit entries appearing in separate accounts for the respective assets, whilst the deceased's debts, funeral expenses, etc., are debited to the Estate Account and credited to the respective Liability Accounts. Subsequently the Journal is used for passing transfers from one ledger account to another ledger account, as, for example, the profit or loss arising on the realisation of an asset.

In this connection, eminent authorities differ in opinion as to whether the asset accounts should be opened with the probate values or not. The argument in support of using these figures is that it is the only method by which the accounts show, at any time, a full, complete, and adequate record of the testator's assets and liabilities, and, therefore, it is quite impossible for any asset or liability to be overlooked at the time of any subsequent division of the estate amongst the beneficiaries.

Other authorities suggest that if the probate values are entered in the accounts, and a loss is subsequently incurred on realisation, the executors might be required to make good that loss. They therefore recommend that only a memorandum note of the probate values should be taken and that the estate and asset accounts should be written up as and when the assets are realised. In other words, the accounts are solely on a cash basis, but it is submitted that the Cash Account or system is not a complete record. Moreover, the foregoing view of the executors' personal responsibility does not appear to be correct. An executor is *prima facie* responsible for the proper realisation of the assets entrusted to his care, and he would be personally chargeable only for a breach of trust in the execution of his duty. This personal liability arises whether the facts are entered in books of account or not.

The actual method to adopt is largely a question of expediency, *i.e.*, what is the best method to pursue in the individual circumstances of each case. For small estates, the cash method is probably the most convenient, but for large estates, where many interests are involved, the complete method of recording full details of the assets and their subsequent realisation is undoubtedly the best. The latter method, which is generally adopted by professional accountants, is adopted in the example shown in the subsequent pages.

The Cash Book.—The most suitable form of Cash Book contains three columns showing respectively the apportioned amounts for income and capital, as in the example on page 1011. In practice, however, sometimes the total column is *omitted*, and sometimes only the total column is used. In the latter case adjustments are made in the Ledger, thus (p. 1015) the first item of £58 2s. 6d. might be posted in one item and then £1 17s. 11d. transferred to Income Account and £56 4s. 7d. to Capital Account.

The entries should show full details and, where apportionment occurs, the respective periods for income and capital should be stated.

The Ledger.—Two money columns, representing income and capital, should be shown on both sides of the Ledger and, if there are a large number of investments, it is convenient to have a third column to record the nominal value of the investments.

The usual accounts opened are the Estate Account, Income Account, separate accounts for funeral, testamentary, and executorship expenses, creditors, debtors, legacies and devises, each investment, leasehold or freehold property, and a separate account for each annuitant, life-tenant and residuary legatee. Profits or losses on the realisation of assets, those expenses which are chargeable against capital, and the payment of legacies are transferred to the Capital Account. The final balance represents the residual value of the estate, and this final balance is divided and transferred to the credit of the residuary legatees' accounts.

Income Account.—To this account are transferred the credit balances of the income columns of the various investment and property accounts, whilst on the debit side are entered the transfers from the expense accounts which are applicable to income, *e.g.*, interest on estate duty and expenses of carrying on the estate, etc.

The balance of the Income Account is divided amongst the life tenants in the proportions in which they are entitled to share the income and credited to their respective accounts; the latter accounts being debited from the Cash Book with the actual payments made.

Example.—Charles Day died on 2nd January, 1926, and his estate was valued for probate as follows :—

	£	s.	d.
£12,000 Consols 2½%, at 55 ex div.	6,600	–	–
Dividend due 5th Jan. £75 – –			
Less tax at 4s. in £ = 15 – –			
	60	–	–
£20,000 5% War Loan at 98	19,600	–	–
100 Cum Preference Shares of £10 each in the Exe Co., Ltd., at £8 per share	800	–	–
100 Ordinary Shares of £5 each in the Alpha Co., Ltd., at £10 each	1,000	–	–
$\frac{8}{64}$ths share (nom. value, £800) in the S.S. *Delaware*, valued at	850	–	–
Cash in the house	13	10	–
Cash at bank	475	12	6
Cash on deposit (interest to 31st Dec. paid)	7,000	–	–
Interest accrued thereon (two days)	2	–	–
Loan on mortgage at 5%	2,000	–	–
6 months' interest thereon, due 2nd January £50 – –			
Less income tax at 4s. 10 – –			
	40	–	–

	£	s.	d.
Household Furniture	1,100	–	–
Leasehold House (let at £100 per annum and subject to a ground rent of £8 per annum)	900	–	–
Rent due from Midsummer to date	52	–	–
Freehold Residence	2,400	–	–
Liabilities.			
Debts due by deceased	306	–	–
Ground rent due 1st January	4	–	–
Liability for Sch. A income tax on leasehold property (assessed at £80) from 6th April, 1925, to 2nd January, 1926 = $\frac{273}{365}$ of £16 = £11 18 5			
Less proportion of tax on ground rent $\frac{273}{365}$ of £1 12s. = 1 3 10			
	10	14	7
Liability to Sch. A tax on freehold residence (assessed at £120) from 6th April to 2nd January = $\frac{273}{365}$ of £24	17	17	8

By his will the testator left the following legacies, free of duty: Household furniture and effects to his widow; £250 to his brother; £500 to his niece; and his shares in the Alpha Co. to his secretary.

The residue of the estate was to be held in trust for the benefit of his widow (free of all duties) during her lifetime. On her death the residue was to be realised and distributed; one-fourth to his niece and the remainder equally between the Mayville Hospital and the Mayville Orphanage.

The will directed that the rule in *Allhusen* v. *Whittel* should not apply.

The widow died on 5th October, 1926.

The executors' receipts and payments were as follows:—

1926.		£	s.	d.
Jan. 3.	Quarter's dividend on £12,000 Consols	58	2	6
25.	Half year's rent of leasehold property to Christmas, 1923 £50 – –			
	Less Income Tax, 1st instalment (£80 at 4s.) 8 – –	42	–	–
28	First instalment of Sch. A tax on Freehold Residence	12	–	–
,,	Ground Rent to Christmas paid £4 – –			
	Less tax at 4s. 16 –			
		3	4	–
Feb. 2.	Funeral Expenses	57	–	–
,,	Debts due by deceased	306	–	–
Mar. 31.	Withdrawn from Deposit Account	3,500	–	–
,,	Dividend from S.S. *Delaware* in respect of voyage ended 2nd Dec., 1923	49	–	–
,,	Proceeds of sale of shares in S.S. *Delaware*	900	–	–

[1] Of this amount, 16s. will (of course) be deducted from the £4 payable 1st January, and the remaining 7s. 10d. is the proportion of the second instalment of 16s. due the following 1st July.

1926.		£	s.	d.
Mar. 31.	Dividend on Cum. Pref. Shares in Exe Co. for year ended 31st Jan., 1923, out of profits earned in year ended 31st Jan., 1924 . . . . . (N.B.—The company made no profits in 1922–23).	49	–	–
,,	Inland Revenue, Estate Duty Paid 13% on Personalty, [1]£40,097 11s. 4d. £5,212 13 8 Interest thereon . . . . 50 5 – 13% on Realty, £2,400 . . . 312 – –	5,574	18	8
April 5.	Quarter's dividend on £12,000 Consols . . .	60	–	–
30.	Legacies paid : Brother, £250 ; Niece, £500 . .	750	–	–
,,	Shares in Alpha Co. transferred to the beneficiary and legacy duty thereon received from him . .	100	–	–
30.	Inland Revenue—Legacy Duties— Widow, on Furniture, etc., 1% on £1,100. . . . . £11 – – Brother, 5% on £250 . . 12 10 – Niece, 5% on £500 . . 25 – – Secretary, 10% on £1,000 . . 100 – –	148	10	–
May 29.	Purchase of £2,000 Consols at 54	1,080	–	–
	Brokerage, etc.	3	18	–
,,	Net proceeds of sale of 100 Cum. Pref. Shares of £10 each in Exe Co.	1,030	10	–
June 1.	Half year's dividend on £20,000 5% War Loan .	500	–	–
30.	Interest on Bank Deposit	140	–	–
July 1.	Widow, on account of income	500	–	–
,,	Inland Revenue : Legacy Duty thereon . .	5	–	–
,,	Half year's ground rent to Midsummer . £4 – – *Less* income tax, 4s. . . . 16 –	3	4	–
2.	Proceeds of security for mortgage and unpaid interest (forfeited to the estate)	1,890	–	–
,,	Place on Deposit Account	2,345	–	–
5.	Half year's rent of leasehold house. . £50 – – *Less* 2nd instalment of income tax . 8 – –	42	–	–
July 5.	Rent from widow, who took over freehold residence at £150 per annum and paid rent from 3rd Jan. to 24th June . . . . . £71 14 – *Less* 2nd instalment of income tax . 12 – –	59	14	–
,,	Proceeds of sale of leasehold property . . .	1,000	–	–
,,	Quarter's dividend on £14,000 Consols . £87 10 – *Less* income tax . . . . 17 10 –	70	–	–
Sept.30.	Widow on account of income	250	–	–
,,	Inland Revenue, Legacy Duty thereon . . .	2	10	–
Oct. 5.	Quarter's dividend on £14,000 Consols . . .	70	–	–
	Interest on Deposit Account to date . . .	72	10	–
,,	Date of widow's death.			

[1] This amount will be arrived at as indicated on page 987, and the Estate Account (p. 1013) agrees therewith.

The book value of the property " passing " on the widow's death to the residuary legatees is represented by the balance of the Estate Account on 5th October, £34,228 11s. 10d. (*see* page 1013). Estate duty will be payable thereon on the market values of the assets represented by this balance, but subject to an allowance of 50 per cent. on the duty payable on the freehold property owing to the estate duty being payable a second time within twelve months of the first death (*see* page 984). This duty is payable out of the property itself; the rate of duty being determined by the net aggregate total of the widow's own estate, plus the above property passing on her death For purposes of this exercise, the rate has been taken at 11 per cent. on the book value, thus :—

11% on Personalty £31,828 11 10 =		£3,401	2 11
11% on Realty, £2,400 =	£264 – –		
Less allowance, 50% =	132 – –		
		132	– –
		£3,533	2 11

The widow's executors are entitled to receive all income which has accrued to date of her death ; any subsequent income is credited to capital and forms part of the residue distributable to the remaindermen :—

			£	*s.*	*d.*
Nov.	1.	Widow's executors gave up possession of freehold residence and paid rent to date	52	–	–
	14.	Freehold residence sold, net proceeds . . .	2,425	–	–
	,,	£4,000 Consols sold at 56 cum div.. . . .	2,240	–	–
		Less Brokerage charges, etc.	7	14	–
	,,	Inland Revenue : Estate Duty paid . . .	3,896	7	10
		Interest thereon . . .	16	10	–
Dec.	1.	Dividend on War Loan.	500	–	–
	,,	Interest on Deposit Account	36	12	6
	,,	Deposit Account transferred to Current Account .	5,845	–	–
Dec.	1.	Executorship expenses on realisation . . .	58	12	6
	2.	The residuary legatees agreed to take over the investment in Consols and War Loan in their due proportions. Consols were valued at 57 and War Loan at 101.			

Prepare the executors' accounts, making reserves (where necessary) for unpaid income tax, and show (1) interim Balance Sheet at date of widow's death, (2) final Balance Sheet with proposed distribution of assets as at 2nd December and (3) Residuary Account.

N.B.—(1) In the final apportionment of cash the legacy duty on the total of each residuary legatee's share of the residue (Cash + Consols + War Loan) must be deducted from their respective shares of the cash.

(2) This exercise has been revised and brought up-to-date ; estate duties and income tax being calculated at rates ruling in 1926 at the date of death and date of payment.

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1926			£	s.	d.	£	s.	d.
Jan. 2	Sundry Assets *Dr.*							
	To Estate Account	1				42,893	2	6
	Consols (2½%), £12,000 at 55 ex div.	3	6,600	–	–			
	Dividend thereon due 5th Jan. £75 – –							
	Less tax at 4s. 15 – –							
		3	60	–	–			
	War Loan (5%) £20,000 at 98 cum. div.	4	19,600	–	–			
	Exe Co., Ltd., Cum. Pref. Shares of £10 each, 100 at £8	5	800	–	–			
	Alpha Co., Ltd., Ord. Shares of £5 each, 100 at £10	6	1,000	–	–			
	S.S. *Delaware*, $\frac{6}{64}$ths Share (Nom. Val. £800) *valued at*	7	850	–	–			
	Cash in the house	C.B.	13	10	–			
	Cash at Bank	C.B.	475	12	6			
	Cash on Deposit	8	7,000	–	–			
	Interest accrued thereon (two days)	8	2	–	–			
	Loan on Mortgage at 5%	9	2,000	–	–			
	6 months' interest thereon, due 2nd Jan. £50 – –							
	Less income tax at 4s. 10 – –							
		9	40	–	–			
	Household Furniture	10	1,100	–	–			
	Leasehold Property, valued at	11	900	–	–			
	Rent due from Midsummer to date	11	52	–	–			
	Freehold Property (own residence) valued at	12	2,400	–	–			
Jan. 2	Estate Account *Dr.*	1	338	12	2			
	To Sundry Liabilities—							
	Deceased's Debts	13				306	–	–
	Leasehold Property (Ground Rent)	11				4	–	–
	Income Tax Suspense Account	14				28	12	2
	Liability for Sch. A Income Tax on Leasehold property assessed at £80 at 4s. =							
	$\frac{273}{365}$ of £18 £11 18 4							
	Less proportion of tax on ground rent 1 3 10 ($\frac{273}{365}$ of £1 16s.)							
	10 14 6							
	On Freehold Property (£120 at 4s.) =							
	$\frac{273}{365}$ of £27 17 17 8							
	£28 12 2							
	Carried Forward		43,231	14	8	43,231	14	8

JOURNAL—*Continued*

				£	s.	d.	£	s.	d.
1926	Brought Forward			43,231	14	8	43,231	14	8
Apr. 30	Legacies Account *Dr.*		15	2,100	–	–			
	To Sundries—								
	Household Furniture		10				1,100	–	–
	transferred to widow.								
	Alpha Co. Shares		6				1,000	–	–
	transferred to secretary.								
Oct. 5	Income Tax Suspense Account *Dr.*		14	28	12	2			
	To Sundries—								
	Leasehold Property		11				10	14	6
	Freehold Property		12				17	17	8
	Transfer of income tax on rent apportioned to capital.								
Oct. 5	Sundries *Dr.*								
	To Estate Account		1				474	12	1
	Exe Co. Shares		5	275	12	1			
	S.S. *Delaware*		7	99	–	–			
	Leasehold Property		11	100	–	–			
	Profits on realisation.								
Oct. 5	Estate Account *Dr.*		1	3,218	17	9			
	To Sundries—								
	Loan on Mortgage		9				195	–	–
	Loss on realisation.								
	Legacies Account		15				2,850	–	–
	Legacy Duty Account.		16				156	–	–
	Payment of legacies and duty.								
	Deposit Account		8					8	–
	War Loan		4				17	9	9
	Reserves for unpaid income tax.								
Oct. 5	Sundries *Dr.*								
	To Income Account		2				846	4	2
	Consols (dividends)		3	201	19	–			
	War Loan ,,		4	330	1	1			
	Exe Co. Shares (dividends)		5	3	17	11			
	Bank Deposit (interest)		8	168	8	–			
	Loan on Mortgage ,,		9	36	–	–			
	Leasehold Property (net rents)		11	40	6	6			
	Freehold Property ,,		12	65	11	8			
	Being transfer of dividends, etc.								
Oct. 5	Sundries *Dr.*								
	To Income Tax Suspense Account		14				151	10	–
	Loan on Mortgage Account		9	9	–	–			
	Reserve for income tax on £45 at 4s.								
	Carried Forward			49,909	–	10	50,051	10	10

JOURNAL—*Continued*

			£	s.	d.	£	s.	d.
1926	Brought Forward . .		49,909	–	10	50,051	10	10
Oct. 5	War Loan	4	100	–	–			
	Reserve for income tax on £500 at 4s.—							
	Income £412 11 4 at 4s. = £82 10 3							
	Capital 87 8 8 „ 17 9 9							
	Deposit Account	8	42	10	–			
	Reserve for income tax on £212 10s.							
	Income £210 10 – at 4s. = £42 2 0							
	Capital 2 – – „ 8 –							
Dec. 1	Sundries *Dr*							
	To Estate Account . . .	1				189	13	9
	War Loan (net dividends) . .	4	124	11	9			
	Deposit Account (net interest) . .	8	29	6	–			
	Freehold Property . . .	12	35	16	–			
	(Profit on Realisation.)							
Dec. 1	Sundries *Dr.*							
	To Income Account . . .	2				316	12	3
	Freehold Property (rents to 5th Oct.)	12	41	4	–			
	War Loan (dividend to 5th Oct.) .	4	275	8	3			
Dec. 1	Sundries *Dr.*							
	To Income Tax Suspense Account	14				107	6	6
	War Loan	4	100	–	–			
	Reserve for income tax on £500 at 4s.							
	Deposit Account	8	7	6	6			
	Reserve for income tax on £36 12 6 at 4s.							
Dec. 1	Sundries *Dr.*							
	To Estate Account . . .	1				933	17	8
	Consols	3	246	9	–			
	War Loan	4	687	8	8			
	Appreciation in value of investments.							
			51,599	1	–	51,599	1	–

Dr. CASH BOOK. *Cr*

		Led Fo.	Income.	Capital.	Total.			Led. Fo.	Income.	Capital.	Total.
1926			£ s. d.	£ s. d.	£ s. d.	1924			£ s. d.	£ s. d.	£ s. d.
Jan. 2	To Estate Account [1]	1		489 2 6	489 2 6	Jan. 25	By Leasehold Property—				
5	„ Dividend on £12,000 Consols—						Income Tax on Rent :				
	Income, 3 days	3	1 19 —				Income, 93 days	11	2 — 10		
	Capital, 89 „	3		58 1 —	60 — —		Capital, 272 „	11		5 19 2	8 — —
25	„ Leasehold Property—					28	„ Freehold Property—				
	Rent to Xmas (Gross)	11		50 — —	50 — —		Income Tax :				
28	„ Leasehold Property—						Income, 93 days	12	3 1 2		
	Tax on Ground Rent	11	4 1	11 11	16 —		Capital, 272 „	12		8 18 10	12 — —
Mch. 31	„ Deposit Account (Transfer)	8		4,800 — —	4,800 — —	28	„ Leasehold Property—				
31	„ S.S. *Delaware*—						Ground Rent (Gross)	11		4 — —	4 — —
	Dividend for voyage ended					Feb. 2	„ Funeral Expenses	1		57 — —	57 — —
	2nd Dec., 1923	7		49 — —	49 — —	„	„ Deceased's Debts	13		306 — —	306 — —
„	„ S.S. *Delaware*—					Mch. 31	„ Inland Revenue—				
	Sale of Shares	7		900 — —	900 — —		Estate Duty, Realty	1		312 — —	
31	„ Exe Co., Ltd., Dividend—						„ „ Personalty	1		5,212 13 8	5,524 13 8
	Income, 29 days	5	3 17 11				Interest on Personalty Duty	2	50 5 —		50 5 —
	Capital, 336 „	5		45 2 1	49 — —	April 30	„ Legacies Account—				
April 5	„ Dividend on £12,000 Consols	3	60 — —		60 — —		Brother	15		250 — —	
May 29	„ Exe Co., Ltd.—						Niece	15		500 — —	750 — —
	Sale of Shares	5		1,030 10 —	1,030 10 —		„ Inland Revenue Legacy Duties—				
June 1	„ Dividend on £20,000 War Loan—						Widow (Furniture), 1% on £1,100	16		11 — —	
	Income, 151 days	4	412 11 4				Brother, 5% on £250	16		12 10 —	
	Capital, 32 „	4		87 8 8	500 — —		Niece, 5% on £500	16		25 — —	
30	„ Bank Deposit Interest	8	138 — —	2 — —	140 — —		Secretary, 10% on £1,000	16		100 — —	148 10 —
July 1	„ Leasehold Property—					May 2	„ Consols, purchase of £2,000 at 54 and Brokerage	3		1,083 18 —	1,083 18 —
	Income Tax on Ground Rent	11	4 1	11 11	16 —	July 1	„ Widow, on account of Income	2	500 — —		500 — —
2	„ Mortgage Security Sale proceeds—					„	„ Inland Revenue—				
	Income $\frac{50}{2,100}$ of £1,896	9	45 — —				Legacy Duty thereon	16		5 — —	5 — —
	Capital, $\frac{2,050}{2,100}$ of £1,890	9		1,845 — —	1,890 — —						
	Carry forward		661 16 5	9,357 8 1	10,019 4 6		Carry forward		555 7 —	7,893 19 8	8,449 6 8

[1] It is assumed that the Cash in the House (£13 10s.) and the Cash at Bank (£475 12s. 6d.) were transferred to a new banking account in the name of the executors.

		Led. Fo.	Income.			Capital.			Total.		
1926	Brought forward		661	16	5	9,357	8	1	10,019	4	6
July 5	To Leasehold Property— Half Year's Rent (Gross)	11	48	–	–	2	–	–	50	–	–
„	„ Freehold Property— Rent to 24th June (Gross)	12	71	14	–				71	14	–
„	„ Leasehold Property— Sale proceeds	11				1,000	–	–	1,000	–	–
„	„ Dividend on £14,000 Consols	3	70	–	–				70	–	–
Oct. 5	„ „ „ „	3	70	–	–				70	–	–
„	„ Interest on Deposit Account	8	72	10	–				72	10	–
			£994	–	5	10,359	8	1	11,353	8	6
Oct. 5	To Balance b/d		179	11	5	103	–	5	282	11	10
Nov. 1	„ Freehold Property— Rent to date : Income, 103 days	12	41	4	–						
	Capital, 27 „	12				10	16	–	52	–	–
14	„ Freehold Property— Sale proceeds	12				2,425	–	–	2,425	–	–
14	„ Consols, sale of £14,000 stock, cum. div. £2,240 – – *Less* brokerage 7 14 –	3				2,232	6	–	2,232	6	–
Dec. 1	„ War Loan, dividend on £20,000 stock— Income, 126 days	4	344	5	3						
	Capital, 57 „	4				155	14	9	500	–	–
„	„ Deposit Account, Transfer	8				4,545	–	–	4,545	–	–
„	„ „ „ Interest	8				36	12	6	36	12	6
			£565		8	9,508	9	8	10,073	10	4
Dec. 2	To Balance c/d		565	–	8	5,900	4	3	6,465	4	11

		Led. Fo.	Income.			Capital.			Total.		
1926	Brought forward		555	7	–	7,893	19	8	8,449	6	8
July 1	By Leasehold Property— Ground Rent (Gross)	11	4	–	–				4	–	–
2	„ Deposit Account, Transfer	8				2,345	–	–	2,345	–	–
5	„ Leasehold Property Income Tax— Income	11	2	–	10						
	Capital	11				5	19	2	8	–	–
„	„ Freehold Property, Sch. A Tax— Income	12	3	1	2						
	Capital	12				8	18	10	12	–	–
Sept. 30	„ Widow on account of income	2	250	–	–				250	–	–
„	„ Legacy Duty thereon	16				2	10	–	2	10	–
Oct. 5	„ Balance c/d		179	11	5	103	–	5	282	11	10
			£994	–	5	10,359	8	1	11,353	8	6
Nov. 14	By Inland Revenue— Estate Duty, Personalty	1				3,401	2	11			
	„ „ Realty	1				132	–	–			
	Interest on Personalty Duty	1				16	10	–	3,549	12	11
Dec. 1	„ Executorship Expenses on realisation	1				58	12	6	58	12	6
2	„ Balance c/d		565	–	8	5,900	4	3	6,465	4	11
			£565	–	8	9,508	9	8	10,073	10	4

Dr. ESTATE ACCOUNT 1 *Cr.*

1926							1926						
Jan. 2	To Sundry Liabilities—						Jan. 2	By Sundry Assets—					
	,, Deceased's Debts	J.	306	–	–			£12,000 Consols at 55 ex div.	J.	6,600	–	–
	Ground Rent	,,	4	–	–			Div. due 5th Jan.	,,	60	–	–
	Income Tax, Sch. A	,,	28	12	2			£20,000 War Loan at 98 cum div.	,,	19,600	–	–
Feb. 2	,, Cash—							Exe Co., Cum. Pref. Shares, 100 at £8	,,	800	–	–
	Funeral Expenses	C.B.	57	–	–			Alpha Co., Ord. Shares, 100 at £10	,,	1,000	–	–
	,, Balance c/d—							S.S. *Delaware*, $\frac{8}{64}$ths share	,,	850	–	–
	Net value of estate		42,497	10	4			Cash in the house	,,	13	10	–
								Cash at Bank	,,	475	12	6
								Cash on Deposit	,,	7,000	–	–
								Accrued Interest	,,	2	–	–
								Loan on Mortgage	,,	2,000	–	–
								Accrued Interest	,,	40	–	–
								Household Furniture	,,	1,100	–	–
								Leasehold Property	,,	900	–	–
								Rent accrued	,,	52	–	–
								Freehold Property	,,	2,400	–	–
		£	42,893	2	6				£	42,893	2	6
Mch. 31	To Cash Estate Duty on Personalty	C.B.	5,212	13	8			By Balance b/d		42,497	10	4
	on Realty	,,	312	–	–		Oct. 5	,, Transfer Profit on realisation—				
Oct. 5	,, Transfers—							Exe Co., Shares	J.	275	12	1
	Loan on Mortgage (Loss)	J	195	–	–			S.S. *Delaware* Shares	,,	99	–	–
	Legacies paid	,,	2,850	–	–			Leasehold Property	,,	100	–	–
	Legacy Duty	,,	156	–	–							
	Deposit Account, reserve for Income tax	,,		8	–							
	War Loan do.	,,	17	9	9							
	,, ,, Balance c/d		34,228	11	–							
		£	42,972	2	5				£	42,972	2	5

Dr. ESTATE ACCOUNT—*contd.* *Cr.*

1926						1926					
Nov. 14	To Estate Duty—					Oct. 5	By Balance b/f			34,228	11 –
	Personalty	C.B.	3,401	2	11	Dec. 2	„ Transfers—				
	Realty	„	132	–	–		War Loan Dividends	J.		124	11 9
	Interest	„	16	10	–		Deposit Interest	„		29	6 –
Dec. 1	„ Executorship Expenses	„	58	12	6		Freehold Property, Profit on Realisation	„		35	16 –
2	„ Balance c/d		31,743	17	–		„ „ Appreciation in value Consols	„		246	9 –
							„ „ War Loan	„		687	8 8
		£	35,352	2	5				£	35,352	2 5
						Dec. 2	By Balance b/d			31,743	17 –

Dr. INCOME ACCOUNT 2 *Cr.*

1926						1926					
Mar. 31	To Cash : Interest on Estate Duty	C.B.	50	5	–	Oct. 5	By Transfers—				
July 1	„ „ Widow	„	500	–	–		Consols, dividends	J.		201	19 –
Sept. 30	„ „ „	„	250	–	–		War Loan „	„		330	1 1
Oct. 5	„ Balance c/d		45	19	2		Exe Co. „	„		3	17 11
							Bank Deposit Interest	„		168	8 –
							Mortgage „	„		36	– –
							Leasehold Property, net Rents	„		40	6 6
							Freehold Property, net Rents	„		65	11 8
			£846	4	2					£846	4 2
Dec. 2	To Balance c/d		362	11	5	Oct. 5	By Balance b/d			45	19 2
						Dec. 1	„ Transfers—				
							Freehold Property Rents	J.		41	4 –
							War Loan (Div.)	„		275	8 3
			£362	11	5					£362	11 5
						Dec. 2	By Balance b/d			362	11 5

Dr. 2½% CONSOLIDATED STOCK 3 *Cr.*

		Income.			Capital.					Income.			Capital.		
1926								1926							
Jan. 2	To Estate Account—							Jan. 5	By Cash : dividend—						
	£12,000 Stock at 55 ex div.				6,600	–	–		Income 3 days	1	19	–			
	Div. due 5th Jan.				60	–	–		Capital 89 ,,				58	1	–
May 29	,, Cash: purchase of £2,000 stock at 54 and brokerage				1,083	18	–	April 5	,, Cash : dividend	60	–	–			
								July 5	,, ,, ,,	70	–	–			
								Oct. 5	,, ,, ,,	70	–	–			
Oct. 3	,, Transfer to Income A/c	201	19	–					,, ,, Balance c/d				7,685	17	–
		£201	19	–	£7,743	18	–			£201	19	–	£7,743	18	–
Oct. 5	To Balance b/d				7,685	17	–	Nov. 14	,, Cash : sale of £4,000 stock at 56, *less* brokerage				2,232	6	–
Dec. 2	,, Estate Account, appreciation in value				246	9	–	Dec. 2	,, Value of £10,000 stock at 57				5,700	–	–
					£7,932	6	–						£7,932	6	–
Dec. 2	,, Balance b/d				5,700	–	–								

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Another method of treatment is to post both the £1 19s. 0d. and the £58 1s. 0d. into the inner column, and then transfer to Income Account and Capital Account respectively—leaving the Capital figure at the Probate value—and the Editor prefers that method of treatment.

Dr. 5% WAR LOAN 4 *Cr.*

		Income.			Capital.					Income.			Capital.		
1926								1926							
Jan. 2	To Estate Account, £20,000 stock at 98 cum div. .				19,600	–	–	June 1	By Cash : dividend— Income, 151 days .	412	11	4			
Oct. 5	,, Reserve for Income Tax, £500 at 4s. . .	82	10	3	17	9	9		Capital, 32 ,, .				87	8	8
,,	,, Transfer to Income A/c .	330	1	1				Oct. 5	,, Transfer to Estate A/c (Income Tax) . .				17	9	9
									,, ,, Balance c/d . . .				19,512	11	4
		£412	11	4	19,617	9	9			£412	11	4	19,617	9	9
Oct. 5	To Balance b/d . . .				19,512	11	4	Dec. 1	By Cash : dividend— Income, 126 days .	344	5	3			
Dec. 1	,, Reserve for Income Tax, £500 at 4s. . .	68	17	–	31	3	–		Capital, 57 ,, .				155	14	9
,,	,, Transfer to Income A/c .	275	8	3				2	,, Value of £20,000 stock at 101				20,200	–	–
	,, Estate A/c .				124	11	9								
2	,, Estate A/c, appreciation in value . . .				687	8	8								
		£344	5	3	20,355	14	9			£344	5	3	20,355	14	9
Dec. 2	To Balance b/d . .				20,200	–	–								

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Dr. EXE CO., LTD. CUM. PREF. SHARES 5 *Cr.*

		Income.			Capital.					Income.			Capital.		
1924 Jan. 2	To Estate A/c, 100 shares at £8				800	–	–	1924 Mch. 31	By Cash : dividend	3	17	11	45	2	1
Oct. 5	,, Transfer to Income A/c	3	17	11				May 2	,, Cash : proceeds of sale of shares				1,030	10	–
5	,, Transfer to Estate A/c (Profit on realisation)				275	12	1								
		£3	17	11	£1,075	12	1			£3	17	11	£1,075	12	1

Dr. ALPHA CO., LTD. ORD. SHARES 6 *Cr.*

					Capital.								Capital.		
Jan. 2	To Estate A/c, 100 shares at £10				1,000	–	–	April 30	By Legacies A/c, Secretary				1,000	–	–

Dr. S.S. *DELAWARE* $\frac{8}{64}$THS SHARE 7 *Cr.*

			Capital.						Capital.		
1926						1926					
Jan. 2	To Estate A/c, $\frac{8}{64}$ths share		850	–	–	Mch. 31	By Cash : Dividend		49	–	–
Oct. 5	„ Estate A/c (profit on realisation)		99	–	–		„ Cash : Sale of shares		900	–	–
			£949	–	–				£949	–	–

Dr. BANK DEPOSIT ACCOUNT 8 *Cr.*

		Income.			Capital.					Income.			Capital.		
Jan. 2	To Estate A/c—							Mch. 31	By Cash				4,800	–	–
	Balance on deposit				7,000	–	–	June 30	„ Cash, interest to date	138	–	–	2	–	–
	Accrued interest				2	–	–	Oct. 5	„ „ „ „	72	10	–			
July 2	„ Cash				2,345	–	–		„ „ Transfer to Estate A/c (Tax)					8	–
Oct. 5	„ Reserve for Income Tax, £212 10s. at 4s.	42	2	–		8	–		„ „ Balance c/d				4,545	–	–
„	„ „ Transfer to Income A/c	168	8	–											
		£210	10	–	£9,347	8	–			£210	10	–	£9,347	8	–
Oct. 5	To Balance b/d				4,545	–	–	Dec. 1	By Cash, Interest				36	12	6
Dec. 2	„ Reserve for Income Tax				7	6	6		„ Transfer to Cash				4,545	–	–
„	„ „ Transfer to Estate A/c				29	6	–								
					£4,581	12	6						£4,581	12	6

Dr. LOAN ON MORTGAGE 9 *Cr.*

		Income.	Capital.			Income.	Capital.
1926				1926			
Jan. 2	To Estate A/c		2,000 – –	July 2	By Cash : Sale proceeds—		
	,, Accrued Interest £50 –				Inc.: $\frac{50}{2,100}$ of £1,890	45 – –	
	Less tax 10 –		40 – –				
Oct. 5	,, Reserve for Income Tax, £45 at 4s.	9 – –			Cap.: $\frac{2,050}{2,100}$ of £1,890		1,845 – –
,,	,, Transfer to Income A/c	36 – –		Oct. 5	,, Transfer to Estate A/c: loss on realisation		195 – –
		45 – –	£2,040 – –			£45 – –	£2,040 – –

Dr. HOUSEHOLD FURNITURE 10 *Cr.*

			Capital.				Capital.
Jan. 2	To Estate A/c		1,100 – –	Apl. 30	By Legacies A/c (widow)		1,100 – –

Dr. LEASEHOLD PROPERTY 11 *Cr.*

		Income.			Capital.						Income.			Capital.		
1926								1926								
Jan. 2	To Estate A/c				900	–	–	Jan. 2	By accrued Ground Rent					4	–	–
,,	,, Accrued Rent				52	–	–	25	,, Cash, Rent to Xmas					50	–	–
25	,, Income Tax on Rent : 1st instalment	2	–	10	5	19	2	28	,, Tax on Ground Rent		4	1		11	11	
,,	,, Cash : Gound Rent				4	–	–	July 1	,, ,, ,, ,, 2nd Instalment		4	1		11	11	
July 1	,, ,, ,, ,,	4	–	–				July 5	,, Cash, Rent		48	–	–	2	–	–
5	,, Income Tax— 2nd instalment	2	–	10	5	19	2	5	,, Cash, Sale proceeds					1,000	–	–
Oct. 5	,, Transfer to Income A/c	40	6	6				Oct. 5	,, Transfer, Income Tax Suspense A/c					10	14	6
	Estate A/c				100	–	–									
		£48	8	2	£1,067	18	4				£48	8	2	£1,067	18	4

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Dr. FREEHOLD PROPERTY 12 Cr.

		Income.			Capital.					Income.			Capital.		
1926								1926							
Jan. 2	To Estate A/c				2,400	–	–	July 5	By Cash, Rent	71	14	–			
28	,, Income Tax—							Oct. 5	,, Transfer to Income Tax						
	1st instalment	3	1	2	8	18	10		Suspense A/c				17	17	8
July 5	,, Income Tax—							,,	,, Balance c/d				2,400	–	–
	2nd instalment	3	1	2	8	18	10								
Oct. 5	,, Transfer to Income A/c	65	11	8											
		£71	14	–	£2,417	17	8			£71	14	–	£2,417	17	8
Oct. 5	To Balance b/d				2,400	–	–	Nov. 1	By Cash, Rent to date—						
Dec. 1	,, Transfer to Income A/c	41	4	–					Income, 103 days	41	4	–			
,,	,, Transfer to Estate A/c,								Capital, 27 ,,				10	16	–
	Profit on realisation				35	16	–	14	,, Cash, sale proceeds				2,425	–	–
		£41	4	–	£2,435	16	–			£41	4	–	£2,435	16	–

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Dr. DECEASED'S DEBTS ACCOUNT 13 Cr.

			Capital.						Capital.		
Feb. 2	To Cash		306	–	–	Jan. 2	By Estate A/c		306	–	–

Dr. INCOME TAX SUSPENSE ACCOUNT 14 **Cr.**

		Capital						Capital.		
1926					1926					
Oct. 5	To Transfers to—				Jan. 2	By Estate A/c . . .		28	12	2
	Leasehold Property .	10	14	6						
	Freehold Property .	17	17	8						
		£28	12	2				28	12	2
Dec. 2	,, Balance c/d . . .	£258	16	6	Oct. 5	,, Reserve for Tax—				
						Mortgage Interest .	9 – –			
						War Loan . .	100 – –			
						Deposit Interest .	42 10 –			
								151	10	–
					Dec. 1	,, Reserves for Tax—				
						War Loan . . .	100 – –			
						Deposit Interest .	7 6 6			
								107	6	6
		£258	16	6				£258	16	6
					Dec. 2	By Balance b/d . .		258	16	6

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Dr. LEGACIES ACCOUNT 15 **Cr.**

		Capital.					Capital.		
Apl. 30	To Widow :				Oct. 5	By Transfer to Estate A/c .	2,850	–	–
	Household Furniture .	1,100	–	–					
,,	,, Secretary : Alpha Shares	1,000	–	–					
,,	,, Cash : Brother . .	250	–	–					
	Niece . .	500	–	–					
		£2,850	–	–			£2,850	–	–

Dr. LEGACY DUTIES ACCOUNT 16 *Cr.*

			Capital.					Capital.
1926					1926			
Apl. 30	To Cash : Duties—				Oct. 5	By Transfer to Estate A/c .		156 – –
	Widow, 1% on £1,100	11 – –						
	Brother, 5% on £250	12 10 –						
	Niece, 5% on £500	25 – –						
	Secretary, 10% on £1,000	100 – –						
			148 10 –					
July 1	To Cash : Duty—							
	Widow, 1% on £500 .		5 – –					
Sept. 30	„ Cash : Duty—							
	Widow, 1% on £250 .		2 10 –					
			£156 – –					£156 – –

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BALANCE SHEET AS AT 5TH OCTOBER, 1926

Liabilities.				*Assets.*			
Estate Account	34,228	11	–	Cash at Bank	282	11	10
Income Account	45	19	2	„ on Deposit	4,545	–	–
Income Tax Suspense Account . .	151	10	–	£14,000 Consols	7,685	17	–
				£20,000 War Loan	19,512	11	4
				Freehold Property	2,400	–	–
£	34,426	–	2	£	34,426	–	2

FINAL BALANCE SHEET AS AT 2ND DECEMBER, 1926

Showing the Distribution of Assets

Liabilities.	£	s.	d.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
Income A/c, payable to Widow's Executors				362	11	5	Cash—						
Estate A/c	31,743	17	–				Widow's Executors	362	11	5			
Less Legacy Duty on Widow's Income, 1% on £362 11s. 5d.	3	12	6				Niece	1,063	6	1			
							Mayville Hospital	999	16	6			
Divisible Residue	31,740	4	6				Mayville Orphanage	999	16	6			
							Inland Revenue—						
Residuary Legatees—							Income Tax	258	16	6			
Niece, one-fourth	7,935	1	2				Legacy Duty	2,780	17	11			
Legacy Duty 5%	396	15	1								6,465	4	11
				7,538	6	1	Consols—						
Mayville Hospital ⅜ths	11,902	11	8				Niece	1,425	–	–			
Legacy Duty 10%	1,190	5	2				Mayville Hospital	2,137	10	–			
				10,712	6	6	Mayville Orphanage	2,137	10	–			
Mayville Orphanage ⅜ths	11,902	11	8								5,700	–	–
Legacy Duty 10%	1,190	5	2				War Loan—						
				10,712	6	6	Niece	5,050	–	–			
Inland Revenue							Mayville Hospital	7,575	–	–			
Unpaid Income Tax				258	16	6	Mayville Orphanage	7,575	–	–			
Legacy Duties: Widow	3	12	6								20,200	–	–
Niece	396	15	1										
Mayville Hospital	1,190	5	2										
Mayville Orphanage	1,190	5	2										
				2,780	17	11							
				£32,365	4	11					£32,365	4	11

RESIDUARY ACCOUNT. 2ND DECEMBER, 1926

RECEIPTS.	Money received and property converted into money. £	s.	d.	Value of property not converted into money. £	s.	d.
2½% Consols (left by deceased)—						
£10,000 stock at market price, 57%				5,700	–	–
2,000 „ sold 14th Nov. at 56%	1,116	3	–			
2½% Consols (purchased by executors)—						
£2,000 Stock, sold 14th Nov. at 56%	1,116	3	–			
5% War Loan (left by deceased)—						
£20,000 Stock at market price, 101%				20,200	–	–
Exe Co., Ltd., 100 Cum. Pref. Shares of £10 each, sold 29th May, realised	1,030	10	–			
Alpha Co., Ltd., 100 Ordinary Shares of £5 each, specifically bequeathed to secretary—as valued for probate				1,000	–	–
S.S. *Delaware*, $\frac{8}{64}$th share, sold 31st March for	900	–	–			
Cash in the house at date of death	13	10	–			
„ at Bankers „ „	475	12	6			
„ on Deposit „ „	7,000	–	–			
Loan on Mortgage realised	1,845	–	–			
Household Furniture (specifically bequeathed to widow) at probate valuation				1,100	–	–
Leasehold Property, sold 5th July for	1,000	–	–			
Freehold „ „ 14th Nov. for	2,425	–	–			
Interest, Dividends, Rents, etc., on property accrued to date of death—						
2½% Consols : Stock	58	1	–			
5% War Loan	87	8	8			
Exe Co., Shares	45	2	1			
S.S. *Delaware*	49	–	–			
Bank Deposit	2	–	–			
Leasehold Property	52	–	–			
Interest, Dividends, Rents, etc., on property from date of death of life-tenant (5th Oct.) to date of closing the estate—						
5% War Loan	155	14	9			
Bank Deposit	36	12	6			
Freehold Property	10	16	–			
Transfer total of 1st column to 2nd column				17,418	13	6
				45,418	13	6
Payments.						
Estate Duty at death of testator—						
Personalty	5,212	13	8			
Realty	312	–	–			
Carried forward	5,524	13	8	45,418	13	6

RESIDUARY ACCOUNT. 2ND DECEMBER, 1926—*Continued*

RECEIPTS.	Money received and property converted into money.			Value of property not converted into money.		
	£	s.	d.	£	s.	d.
Brought forward	5,524	13	8	45,418	13	6
Payments.						
Funeral Expenses	57	–	–			
Executorship Expenses	58	12	6			
Debts due at death—						
Personal Accounts	306	–	–			
Ground Rent	4	–	–			
Income Tax, Sch. A, on leasehold and freehold property	28	12	2			
Legacies and Duties thereon—						
	Legacy.		*Duty.*			
Widow (Furniture)	1,100 – –		11 – –			
Secretary (Shares)	1,000 – –		100 – –			
Brother	250 – –		12 10 –			
Niece	500 – –		25 – –			
Duty on payments to life-tenant			7 10 –			
	£2,850 – –		£156 – –			
	3,006	–	–			
Investments purchased by executors—						
£2,000 Consols, at 54⅞ cost	1,083	18	–			
Estate Duty on death of life-tenant—						
Personalty	3,401	2	11			
Realty	132	–	–			
Interest	16	10	–			
Reserve for unpaid income tax—						
on 5% War Loan Dividends	48	12	9			
on Bank Deposit Interest	7	14	6			
				13,674	16	6
Net amount of property on Capital Account			£	31,743	17	–
Interest, Dividends, Rents, etc., received on account of income; from 2nd Jan. to 5th Oct. (date of death of life-tenant)						
2½% Consols	201	19	–			
5% War Loan	756	16	7			
Exe Co., Ltd., Shares	3	17	11			
Bank Deposit	210	10	–			
Mortgage Interest	45	–	–			
Leasehold Property	48	–	–			
Freehold Property	112	18	–			
Carried forward	1,379	1	6			

RESIDUARY ACCOUNT. 2ND DECEMBER, 1926—*Continued*

RECEIPTS.				Money received and property converted into money.			Value of property not converted into money.		
				£	s.	d.	£	s.	d.
Brought forward				1,379	1	6			
Payments.	£	s.	d.						
Interest on Estate Duty at testator's death	50	5	–						
Payments to widow on account	750	–	–						
Ground Rent	4	–	–						
Income Tax, Sch. A									
on Leasehold Property	3	13	6						
,, Freehold Property	6	2	4						
Reserve for unpaid Income Tax									
on War Loan	151	7	3						
,, Deposit Interest	42	2	–						
,, Mortgage Interest	9	–	–						
				1,016	10	1			
Net income to date of death of life-tenant, payable to widow's executors				£362	11	5			

NOTE.—The income being left to the life-tenant free of all duties, the legacy duty thereon is a charge against capital.

The final distribution and apportionment is shown on page 1024.

QUESTIONS ON CHAPTER XXVII

1. Define Executorship Accounts. What is the distinction between an executor and an administrator? What are the duties of executors and administrators?

2. Define Probate and Letters of Administration. In what circumstances are letters of administration granted?

3. What is Estate Duty and when is it levied? Define (i) gifts *inter vivos* and (ii) *donationes mortis causa*; and state how they are dealt with in relation to estate duty. What concessions are available, (i) by way of marginal relief, (ii) where land or business again become liable to estate duty within five years, and (iii) small estates?

4. Outline the method of preparation of an Estate Duty Account. What is a corrective affidavit and what purpose does it serve?

5. Define apportionment. Why is apportionment necessary in Executorship Accounts? What are the statutory provisions relating to apportionment? What expenses are chargeable to capital and what to income?

6. What are equitable apportionments? Discuss the rules in *Howe v. Lord Dartmouth* and the Earl of Chesterfield's Trusts. How is a loss on the realisation of a mortgage security dealt with? Discuss the rule laid down in *Allhusen v. Whittell* and its modification in *re McEuen*.

7. Define a legacy and distinguish between general, demonstrative and specific legacies. What is the distinction between a contingent and a vested legacy? When are legacies said to lapse, or to be adeemed? What is meant by the executor's year.

8. When are legacy and succession duties payable and by whom? Is

legacy duty payable on either gifts *inter vivos* or *donationes mortis causa*? Define abatement and state how it is applied in the event of the assets being insufficient to pay all the legacies in full. What is a Residuary Account?

9. What are the principal rules relating to the distribution of intestate person's estates. What is the widow's right and how far does this right extend? Define Hotchpot, and state how it is applied.

10. What books should be kept by an executor? Discuss the nature of the entries in the Estate Account and the Income Account. How is the balance of these accounts dealt with? Discuss the respective merits of the "complete" method and the "cash" method of keeping Executorship Accounts.

EXERCISE XXVII

N.B. Students should note carefully that the amounts and rates of Estate Duties shown in the following exercises were those in force at the date when the question was originally set; they do not necessarily correspond with the rates at present in force.

1. The trustees of an estate prepare accounts annually on 31st December. Included in the assets are £5,000 2½ per cent. Consols standing in the books at £2,475.

On 21st June, 1922, this investment was sold, realising £3,013 net, and the proceeds invested in £2,978 of 5 per cent. War Loan. On 10th October, 1922, the War Loan was sold for £2,956 net and the proceeds re-invested in £5,274 Consols.

You are required to write up the two Investment accounts for the year ended 31st December, 1922.—(*Institute of Chartered Accountants.*)

2. A died intestate on 1st May, 1922, leaving a widow and one brother. He had no children. His estate consisted of personalty which realised £17,500 and freehold property which was valued at £6,500. The debts due at death amounted to £950, the funeral and testamentary expenses to £175 and the administration expenses (including all duties) to £1,700.

You are required to prepare a statement showing how the estate should be divided.—(*Institute of Chartered Accountants.*)

3. Alexander Abrahams died intestate in August, 1922, leaving freehold property valued at £12,000 and net personalty valued at £35,000.

The personalty was realised and produced £100 in excess of the probate valuation.

Alexander was a bachelor and was the eldest of four children. His father had predeceased him but his mother was alive. Of the other children, Samuel, the second, was dead, leaving two daughters, Miriam and Elizabeth, and a son (the youngest) Albert. The third and fourth children, Ethel and Harold, both survived him.

Funeral and Testamentary Expenses, including Estate Duty at 10 per cent., amounted to £5,100.

You are required to show the distribution of the estate, ignoring accrued interest, and to show the Succession Duties and Legacy Duties payable. —(*Institute of Chartered Accountants.*)

4. The following are the particulars of the estate of a testator who died on 20th March, 1923 :—

	£	s.	d.
Cash in house	5	12	–
Cash at Bank	327	8	9
Leasehold Property (occupied by testator) subject to a ground rent of £20 per annum, valued at	3,000	–	–
Freehold Property let at a rental of £72 per annum, valued at	3,300	–	–
£23,000 2½% Consols at 59½ ex. div.			

£8,500 5% War Loan at 101⅜ . . .
£1,000 Japanese 4% Bonds, 1899, at 69¾.
£700 Chilian 5% Bonds, 1911, at 80½.

Sundry debts due by testator, excluding Income Tax Schedule A and ground rent, amounted to £172 10s 0d and the Funeral Expenses to £48 6s. 6d.
The net Schedule A assessments of the properties were as follows :—

Freehold Property, £50
Leasehold „ £68

The instalment of tax on the latter, due 1st January, had been duly paid. The quarter's rent of the freehold property had been received on 25th December, 1922, and the ground rent on the leasehold property had been paid to 29th September, 1922, the next payment being due on 25th March, 1923.
Income Tax is 5s. in the £.
Prepare an Estate Duty Account (the official form is not required) and determine the Capital and the amount of duty payable.—(*Institute of Chartered Accountants.*)

5. In the winding-up of an estate, a brother of the testator was entitled to one-half interest, and two cousins each to a quarter interest in certain leasehold properties which would revert to the ground landlord five years after testator's death. Each legatee was entitled to revive from the estate a sum on account yearly, the brother £50 per annum, the cousins £25 each per annum, but the final division was not to take place until the expiry of the lease.
During the five years the rentals received were £350 per annum whilst the expenses for the whole period aggregated were Repairs, £200 ; Dilapidation, £250 ; Rates, £150 ; Taxes, £120 ; Administration, £150.
Show the amount available for distribution at the closing of the estate, its apportionment, and the amount for each legatee.—(*Incorporated Accts.*)

6. During a tenancy for life commencing 31st December, 1920, default was made in the payment of the half-year's interest due 1st July, 1922, on a mortgage of £2,000 at 5 per cent. The property was realised by the trustees on 30th June, 1923, the net proceeds amounting to £1,800
How should the £1,800 be apportioned as between Capital and Income ?
(N.B.—Arrears of Interest total £150.)—(*Incorporated Accountants.*)

7. Samuel Jones died on 30th June, 1922, leaving the following estate :—

Cash at Bank	£1,200
Loan to firm of D. Smith & Co., Ltd. (secured by Debentures) Interest 5% paid to date . . .	50,000
War Loan 5% £40,000 which cost	38,000
Debts owing by deceased	6,000

After payment of his debts and funeral expenses the testator bequeathed £1,000 to Cox Atmos, his chauffeur, an annuity of £50 a year to his housekeeper (Mary McDonald), the residue of his estate to be divided between his son Samuel Baskerville Jones and his daughter Annie Webster. The funeral expenses were £240. The executorship expenses amounted to £780. The War Loan was sold at £101 *cum div.*, and out of the proceeds there were discharged (*a*) the estate duty at 13%, (*b*) the legacy of £1,000, and (*c*) the debts and expenses. An annuity in respect of the housekeeper was purchased from the Scottish Widows' Life Assurance Society for £540. The son and daughter agreed to take £25,000 each in Debentures of D. Smith & Co., Ltd., and the balance of their share in cash. Prepare the executorship accounts.—(*Incorporated Accountants.*)

8. A testator died on 31st March, 1918, and his estate was as follows :—

Cash in the house, £15.
Cash at Bank—Current Account, £200.
Freehold house, which he also occupied, value for Probate, £2,800.
Money out on Mortgage, £2,500 at 6% (Interest payable 30th June and 31st December).
Household Furniture and Effects, valued for Probate, £1,200.
5% War Loan, £8,000—87½–87¾.
Southern Railway Deferred Ordinary Stock, £6,000 at 51.
Insurance Policy—realisable value for Probate, £2,900.
There was a mortgage on the freehold property of £1,500 at 6%, interest payable 30th September and 31st March. (Interest to 31st March not paid at date of death.)
Sundry debts due by Testator amounted to £160; Funeral expenses £38.

Draw up an Account for Estate Duty showing the duty payable, assuming the account was presented on 31st July, 1918. Ignore Income Tax on interest.

N.B.—Estate duty in 1918 at old scale then in force was 5%. Interest on estate duty (personalty) was at 3% p.a.

9. A. Jones died on the 1st March, 1923, leaving Estate as follows :—

Colonial Stock	£7,500 at 4%
Corporation Stock	5,000 at 3½%
Household Furniture and Effects	250
Cash at Bank	25

Liabilities at date of death, £50. Dividends on Colonial Stock were due and paid on the 30th April and 31st October, and interest on the Corporation Stock on 31st August and 28th February, *less* Income Tax at 4s. 6d. in the £.

The Colonial Stock was sold for £6,750, and the Corporation Stock realised the amount as valued for probate. The Executorship expenses were £35, and Funeral expenses £30, and the liabilities were discharged by the Executor on the 1st July.

By the will the whole of the Estate is to be converted into money and divided equally between B. Smith and C. Brown.

(i) What would be the duties of the Executor from the death of the Testator until the Estate was distributed on the 1st March, 1924?

(ii) Prepare Capital and Income Account as these should be presented to the beneficiaries on 1st March, 1924, allowing for a year's dividend being received on both stocks.

10. The following is the substance of the estate of Wm. Smith, who died a widower on 1st February, 1921 :—

(*a*) 1,000 £1 Shares in a Canal Company, 6% per annum, payable 1st February and 1st August.
(*b*) 1,500 £1 Shares in a Railway Company, 4% per annum, payable 1st April and 1st October.
(*c*) Loans on Mortgage, £4,000 at 6% per annum, payable 1st January, 1st April, 1st July, and 1st October.
(*d*) £1,000 War Loan, 5%, payable 1st January and 1st July.
(*e*) Cash at Bank, Deposit Account, £500 at 3% per annum, payable 1st January and 1st July.
(*f*) Freehold Property valued at £1,200, producing £100 per annum, after deducting £20 Rates and Taxes, payable half-yearly, 1st May and 1st November.

The estate was left in trust for his three sons and daughter, and under the Trust the sons were to receive an allowance of £2 per week, and the daughter was entitled to the remainder, which was to be paid half-yearly.

The liabilities at date of death were £100, Testamentary Expenses amounted to £40, and Funeral expenses, £40.

The Deposit Account was closed on 1st July and transferred to Current Account on which date Estate Duty, £362 13s., and Interest thereon, £6 1s. was paid.

Prepare Estate Account, Cash Account and Income and Beneficiaries Account for the year ended 31st January, 1922, and Balance Sheet as at that date. Ignore Income Tax, and assume that all Interest and Dividends were received when due.

ANSWERS

EXERCISE I

(1) (*b*) Profit on Exchange £5. (2) To find the *gross* amounts, add on $\frac{1}{8}$th, $\frac{1}{4}$th $\frac{1}{4}$th, $\frac{3}{17}$ths, $\frac{1}{15}$th, and $\frac{1}{4}$rd respectively. (3) Discount = £4 6s. 8d., Commission = £4 10s., (4) Bank Balance as per Pass Book, £205 15s. 5d., *plus* 3 Cheques not cleared, £391 11s. 3d. *less* 2 Cheques not presented, £142 5s. 6d. = Bank Balance as per Cash Book, £455 1s. 2d.

EXERCISE II

	Gross Profit.	*Net Profit.*	*Total of Balance Sheet.*	*Capital Accounts on Balance Sheet.*
(1)	£19,484	£5,419 2s.	£27,372	Brown £7,215 9s.; Phillips £6,954 11s. Trial Balance, £211,240
(2)	£10,310	£350 14s.	£60,891 4s.	Wolfe £23,051 7s.; Harvey £19,423 17s.
(3)	£16,760	£3,647	£42,408	Cook £17,967 6s. 8d.; Darwin £9,382 13s. 4d.
(4)	£5,873 0s. 10d.	£1,318 11s. 10d.	£36,986 1s. 10d.	Rice £20,279 1s. 3d.; Baxter £9,937 0s. 7d.
(5)	£4,260	£1,093 16s.	£26,202	£15,593 16s.
(6)	£5,750 18s. 4d.	£954 16s. 4d.	£21,431 18s. 4d.	Lewis £6,919 11s. 6d.; Smithers £5,558 6s. 10d.
(7)	£18,592	£11,057 14s.	£34,841	Rocklyn £16,110 17s.; Farmley £15,650 3s.
(8)	£11,242	£3,050 12s.	£44,175 12s.	£27,215 12s.
(9)	£13,557	£8,185 16s.	£24,671 16s.	£17,760 16s.
(10)	£7,042	£1,214 5s. 9d.	£26,972 16s. 9d.	Perry £9,672 11s. 5d.; Ruston £7,781 14s. 3d.
(11)	£15,890	£3,753 9s.	£44,391	Kingsley £22,990 6s.; Larke £11,523 3s.
(12)	£5,860	£1,329 4s.	£31,639 4s.	Ramsden £12,379 12s.; Brookes £7,267 12s.
(13)	£3,846 19s.	£2,039 12s. 10d.	£7,199 12s. 11d.	Smith £2,273 5s. 6d.; Jones £1,314 17s. 4d.
	(Sundry Drs. = £4,107 3s. 3d. *less* Reserve £280 7s. 11d. = £3,826 15s. 4d.)			
(14)	£14,650	£8,710	£27,160	A £12,984; B £12,984; C £192
(15)	£7,610	£688	£25,692	£8,994 each partner Trial Balance, £61,784; Capital, £9,000 each.
(16)	£9,010 5s. 3d.	£4,311 10s. 7d.	£45,316 7s. 1d.	Oakley £10,726 11s. 8d.; Denham £9,961 11s. 8d.
(17)	£12,368 16s. 2d.	£3,116 2s. 11d.	£47,172 8s.	Smith £17,189 17s. 4d.; Thompson £14,228 12s. 11d.
(18)	£8,089 17s.	£5,979 18s. 2d.	£12,710 5s. 10d.	Shepherd £6,779 19s. 1d.; Elkington £3,781 16s. 7d.
	(Interest on Drawings: Shepherd £10, Elkington £8 2s. 6d.)			
(19)	£9,600 5s. 5d.	£1,550 16s. 10d.	£30,196 11s. 11d.	Green £9,416 19s.; Richards £8,366 18s. 11d.; Everitt £6,266 18s. 11d.

(NOTES.—(1) Profit, by law, divisible equally in absence of agreement to the contrary. (2) Consignment A/c balance treated as a loss. (3) Both Reserves treated as New Reserves.)

(20)	£3,100	£1,087 18s. 4d.	£9,045	£5,815
(21)	£6,425	£3,650	£30,670	Black £6,525; White £3,575
(22)	£9,537	£6,276 12s. 6d.	£25,423	Wilson £9,929 11s. 3d.; Bookman £7,530 8s. 9d.
(23)	£4,734	£1,849 2s.	£20,410 12s.	Slander £9,748 11s.; Backbite £7,512 11s.
(24)	£15,311	£8,664 11s. 6d.	£35,950 11s. 6d.	£27,864 11s. 6d.

EXERCISE III

(1) xxxii £317 9s. 2d.; xxxiii £245 14s. (2) v Interest £2 13s. 4d., Bill Stamp 5s.; vi Interest £3 10s., Bill Stamp 4s.; ix Interest £26 7s. 6d. (3) (*a*) Discount £1

1s. 11d.; (*b*) Discount £1 7s.; (*c*) Discount £1 1s. 6d. (4) Debit balance of Darlowe & Walsh's account £114 1s. 7d. (5) (*a*) Bill Stamp 2s., due date 4th April. (6) 30th June: Cash £112 10s., Bad Debts £337 10s. (7) Make a Reserve of £500. (8) Debit balance of A's account £3,552 10s. (9) Total of Bills Receivable Book £874 1s. 1d.; total of Bills Payable Book £1,033 14s. 10d. (10) (*a*) Interest 19s. 10d., Bill Stamp 2s.; (*b*) Interest £3 2s. 10d., Bill Stamp 3s. (12) Total Interest on bills £62 10s.; Interest unexpired £54 3s. 4d.; Discount unearned £28 17s. 6d.

EXERCISE IV

(1) Balance of Interest *Cr.* 16s. 8d.; by days 15s. 7d.; Balance of A/c *Cr.* 16s. 8d. or 15s. 7d. (2) Balance of Interest *Dr.* £11 10s. 6d., Balance of A/c *Dr.* £361 10s. 6d. (3) By *Months*, Balance of Interest *Dr.* £1 5s., Balance of A/c *Dr.* £21 5s.; By *Days*, Balance of Interest *Dr.* £1 4s. 4d., Balance of A/c *Dr.* £21 4s. 4d. (4) Balance of Interest *Dr.* 13s. 2d.; Balance of A/c *Dr.* £22 13s. 5d. (5) Balance of Interest *Cr.* 2s. 11d., Balance of A/c *Dr.* £95 10s. 11d. (6) Balance of Interest *Cr.* £3 4s. 2d., Balance of A/c *Cr.* £178 0s. 4d. (7) Balance of Interest *Dr.* 15s., Cheque in settlement *Dr.* £255 19s. 9d. (8) Balance of Interest *Dr.* £1 3s. 8d., Balance of A/c *Cr.* £93 0s. 4d. (9) Balance of Interest *Dr.* £3 12s. 1d., Balance of A/c *Dr.* £146 14s. (10) Balance of Interest *Dr.* 13s. 5d., Balance of A/c *Cr.* £172 4s. 11d. (11) Interest *Dr.* £9 13s. 7d., Total of A/c *Dr.* £399 13s. 7d. (12) Balance of Interest *Dr.* £1 6s. 4d., Balance of A/c *Dr.* £36 5s. 10d. (13) Balance of Interest *Cr.* £8 14s. 11d., Balance of A/c *Dr.* £188 13s. 11d. (14) 27th July. (15) 11th July. (16) 19th Sept. (17) 22nd Oct. (18) Interest *Dr.* £7 0s. 7d., Total of A/c *Dr.* £304 0s. 7d. (19) Elliott must pay Pine £150 12s. 11d. on 1st Nov. (20) Balance of Interest *Cr.* £61 12s. 8d., Final payment *Dr.* £1,811 12s. 8d.

EXERCISE V

(1) Net Profit £149. (2) A/c Sales £1,729 8s. 6d.; Net Profit £710 9s. 6d. (3) Net Profit £88. (4) A/c Sales total Rs. 5,680 = £437 16s. 8d. (12 pies = 1 anna, 16 annas = 1 rupee); Net Profit = £48 4s. 2d. (5) Consignment A/c (total) *Dr.* to each of the items mentioned. (6) In Johnson's books, Loss on Consignment = £5 8s. 11d. (7) Net Loss on Consignment £53 2s. 1d. (8) Profit £68 5s., C's share £22 15s.; D's share £45 10s. (9) Profit on Joint A/c £586. (10) Net Profit on Joint A/c £27 2s. 3d. (11) Proceeds of Consignment in our books = £812 18s. 2d. (£750 2s. 9d. + £62 15s. 5d.). (12) Hansard Estate A/c *Dr.* side 8 items £4,137 0s. 10d.; *Cr.* side 12 items) £1,355 18s. 3d.; Shirley's A/c *Dr.* £950 15s. (13) Net Profit £500; Total of Balance Sheet £26,500; Capital A/cs: James £2,050, Edwards £4,100, Morrison £8,200, Peters £6,150. (15) Profit on Consignment £39 15s. 5d. (16) Net Profit £134 3s. 4d. (17) Loss on Joint A/c £10 7s. 3d. (18) Cash Balance £480. (19) Shares of Profit: A £140, B £190, C £170. (20) Total Loss £3,100. (21) New bill £578 17s. 2d. (£562 + £16 17s. 2d. Int.). (22) Total of A/c Sales £254 17s. 1d. (23) Sight-draft = £738 11s. 5d. (24) Net Profit = £155 12s. 5d. (25) Profit on Venture £143 2s. 6d.; Day owes Robson £748 19s. 4d. (26) Profit on Consignment £131 9s. 4d.; Bailey & Co.'s A/c *Dr.* £545 12s. 8d. (27) Net Loss £124 4s. (28) Profit on Venture £268 11s. 6d.; Amount due to Tohm £579 4s. 10d.; Amt. due to Friedley £387 11s. 3d.; Cash balance £966 16s. 1d. (29) Net Profit £162 12s. 4d.

EXERCISE VI

(4) Balance £13,740. (7) Sales Ledger Trial Balance £459 3s. 4d. (8) Balance £38,702 6s. 9d. (9) Total of Bought Ledger Trial Balance £741 19s. 10d. (10) Total of Bought Ledger Trial Balance £1,153 19s. 7d. (11) Total of Sales Ledger Trial Balance £725 1s. 6d. (12) Total of Sales Ledger Trial Balance £1,167 17s. 10d. (13) Bought Ledger Trial Balance £1,479; Sales Ledger Trial Balance £2,223; General Ledger Trial Balance £11,735; Gross Profit £1,019; Net Profit £346 7s. 6d.; Balance Sheet £9,863 10s.; Capital A/cs: Graham £4,129 15s., Winder £4,129 15s. (14) Trial Balance totals: Bought Ledger £1,552 15s. 3d.; Sales Ledger £1,269 18s. 1d.; General Ledger £7,804 19s. 8d. (15) Trial Balance totals: Bought Ledger £614 10s. 4d.; Sales Ledger £831 13s. 1d.; General Ledger £6,355 4s. (16) Trial Balance totals: Bought Ledger £2,458 1s. 4d.; Sales Ledger £3,326 12s. 4d.; General Ledger £25,420 16s.

EXERCISE VII

(1) (*a*) P. & L. *Dr.* £630 10s. 6d. and £92 13s. 4d.; (*b*) P. & L. *Dr.* £723 3s. 10d. (2) (*a*) P. & L. *Dr.* £727 14s. 2d. and £105 13s.; (*b*) P. & L. *Dr.* £833 7s. 2d. (3) (*a*)

P. & L. *Dr.* £327 16s. 9d. and £548 12s. 10d.; (*b*) P. & L. *Dr.* £876 9s. 7d. (4) (*a*) P. & L. *Dr.* £62 15s. 10d. and *Cr.* £77 9s. 11d.; (*b*) P. & L. *Cr.* £14 14s. 1d. (5) (*a* and *b*) P. & L. *Cr.* £56 10s. 6d. (6) (*a*) P. & L. *Dr.* £27 10s. 4d.; B/S Sundry Drs. £2,806 15s. 5d. *less* Reserve £147 13s. 8d.; (*b*) P. & L. nil; B/S Sundry Drs. £2,806 15s. 5d. *less* Reserve £120 3s. 4d. (7) (*a*) P. & L. *Dr.* £163 17s. 8d. and £31 8s.; (*b*) P. & L. *Dr.* £195 5s. 8d. (8) (*a*) P. & L. *Dr.* £126 13s. 3d. and £78 6s. 8d.; (*b*) P. & L. *Dr.* £204 19s. 11d. (9) (*a*) P. & L. *Dr.* £56 9s. 9d. and *Cr.* £109 17s. 5d.; (*b*) P. & L. *Cr.* £53 7s. 8d. (10) (*a*) P. & L. *Cr.* £110 16s. 6d. and £3 3s. 5d.; (*b*) P. & L. *Cr.* £113 19s. 11d. (11) (*a*) P. & L. *Cr.* £187 16s. 5d. and £4 19s. 9d.; (*b*) P. & L. *Cr.* £192 16s. 2d. (12) (*a*) P. & L. *Cr.* £57 12s. 2d., and *Dr.* £23 19s. 4d.; (*b*) P. & L. *Cr.* £33 12s. 10d.

EXERCISE VIII

(2) Surplus of Income over Expenditure £298; Balance Sheet total £1,315 10s. (Cash in hand £315 10s.; Capital A/c £1,298). (3) Surplus of Income over Expenditure £130. (4) Surplus of Revenue A/c £334 15s.; Balance Sheet total £1,717 15s.; Capital A/c £650 7s. 6d. (5) Surplus of Income and Expenditure A/c £545 12s. 9d.; B/S total £97,089 7s. 7d.; Capital A/c £88,573 16s. (6) Net Profit £15,406 13s. 4d.; Dividend of £240 14s. 7d. per share. (7) Revenue A/c *Cr.* balance £6,247 11s. 4d.; Net Revenue *Cr.* £3,397 11s. 4d.; B/S £55,231 7s. 6d. (8) Income and Expenditure A/c Deficit £43 13s. 6d.; B/S £7,437 3s.; Capital A/c £6,437 3s. (9) Surplus £574 12s. 6d.; B/S £4,728 7s. 2d. (10) Net Profit £3,248 4s. 4d. (11) Surplus £230 18s. 7d.; B/S £1,963 17s. 4d.; Capital A/c £1,488 14s. (12) Net Profit £8,697 10s. 10d.; Dividend to Owners £142 18s. 11d. per share. (13) (*a*) Heading should be Income and Expenditure A/c; (*b*) Income and Expenditure on wrong sides; (*c*) Furniture should be capitalised, only depreciation charged as expenditure; (*d*) Stocks of Stationery, Provisions, Clothing, etc., on hand should be deducted; (*e*) Sundry profits and Interest should be more fully explained; (*f*) Loss should be *last* item on *credit* side; (*g*) Extraordinary expenditure should be spread over 3 to 5 years; (*h*) Account would in latter case show a surplus; (*i*) If Band Expenses includes cost of instruments, the latter should be treated as an asset. (14) Surplus £210 9s. 5d. (15) Profit £530 11s. 2d. (16) Revenue A/c *Cr.* balance £26,217 7s. 9d.; Net Revenue A/c *Cr.* balance £23,661 3s. 10d.; B/S £198,167 8s. 11d. (17) Balance of Cash in hand and at Bank £273 5s. 5d.

EXERCISE IX

(3) Gross Profit: Linoleum Dept. £6,825 2s. 4d., Carpet Dept. £3,368 6s. 7d.; Net Profit: Linoleum Dept. £2,974 19s. 8d., Carpet Dept. £1,443 5s. 3d.; if decimalised, proportions of expenses are ·6̇ and ·3 = ⅔ and ⅓ or ⅓rds and ⅓rd; inspection of figures in £ s. d. shows at once, however, that the departmental turnovers are two-thirds and one-third of the total Sales respectively. (4) A Dept.: Gross Profit £18,256 16s. 1d., Net £7,436 3s. 3d.; B Dept.: Gross Profit £11,819 9s. 1d., Net £6,485 19s. 1d.; Percentages of Gross Profit on Turnover: A Dept. 22·52, B Dept. 25·19; Percentages of Net Profit on Turnover: A Dept. 9·17, B Dept. 13·82. (5) Departmental Profits: No. 1 £151 11s. 8d., No. 2 £173 3s. 1d., No. 3 £195 4s. 7d., No. 4 £221 8s. 5d., No. 5 £256 19s. 11d.; Net Profit £902 2s. 8d.; B/S £6,399 12s. 6d.; Capital A/cs £2,124 3s. 10d. each. (6) A Dept.: Gross Profit £26,080 3s. 11d., Net £10,931 9s. 8d.; B Dept.: Gross Profit £15,660 12s. 2d., Net £5561 9s. 6d. (7) Hair Cream: Gross Profit £4,621 18s. 6d., Net £3,582 11s. 9d.; Tooth Powder: Gross Profit £9,730 4s. 3d., Net £2,898 8s. 10d. (8) Gross Profits: Motor Cars £3,225, Accessories £858 6s. 7d., Repairs £89 16s. 2d., Hire Cars £144 3s. 4d.; Net Profit £3,324 1s. 4d. (9) No. 1 Dept.: Gross Profit £44,829 5s., Net £15,763 11s. 8d.; No. 2 Dept.: Gross Profit £22,831 5s. 10d., Net £8,222 2s. 8d.; Net Profit £17,983 12s. 6d.; B/S £156,911 8s.; Capital A/cs: Smith £55,534 4s. 8d., Brown £41,202 17s., Johnson £35,710 12s. 10d. (10) Departmental Profits: A £258 3s. 8d., B £359 6s., C £352 4s. 10d., D £253 11s. 10d., E £268 5s. 4d.; Net Profit £1,316 11s. 8d.; B/S £10,888 1s. 2d.; Capital A/cs £3,745 15s. 10d. each. (11) X Dept.: Gross Profit £54,201 5s., Net £15,025 7s.; Y Dept.: Gross Profit £33,495 14s. 6d., Net £7,378 9s. 2d. (12) Fish paste: Gross Profit £11,676 13s. 8d., Net £2,023 12s. 4d.; Sauce: Gross Profit £4,906 9s. 6d., Net £3,229 4s. 6d. (13) Gross Profits: Motor Cars £4,500, Accessories £1,470 17s. 8d., Repairs £150 9s. 8d., Hire Cars £100 6s. 2d.; Net Profit £4,395 13s. 4d. (14) Pledged Goods: Gross Profit £1,190 11s. 3d.; Goods for Re-sale: Gross Profit £520 9s. 10d.; Net Profit £626 10s. 3d.; B/S £7,966 19s. 11d., Capital A/c £7,627 6s. 5d. (15) Gross Profits: Engine Dept. £2,529 12s. 5d., Repairs Dept. £2,109 5s. 9d.; Net Profit £2,942 2s. 10d.

16) Works Dept.: Gross Trading Profit £4,663 17s. 10d., Net £2,849 14s. 3d.: Retail Dept.: Gross Trading Profit £6,835 2s. 1d., Net £4,808 2s. 4d.: Net Profit £7,451 3s. 7d.

EXERCISE X

(2) Balance of Drawings A/c transferred to credit of Capital A/c £177 1s. 8d. (3) Total of Balance Sheet £8,020; Capital A/cs: A £2,760, B £2,760, C £1,000. (4) Gross Profit £3,675; Net Profit £1,408 6s. 8d. (depreciating Lease $\frac{1}{10}$, Patents, Plant 10%, Tools 10%); Balance Sheet total £24,608 6s. 8d.; Capital A/cs £7,304 3s. 4d. each. (5) Gross Profit £6,425; Net Profit £3,650; Balance Sheet total £30,670; Capital A/cs: Black £6,525, White £3,575. (6) Gross Profit £11,306; Net Loss £5,620; B/S £85,810; Capital A/cs: Lion £55,310, Unicorn £26,640. (7) Gross Profit £2,748; Net Profit £1,023 5s.; B/S £6,217; Capital A/cs: James £3,256 7s. 4d., Jones £2,112 12s. 8d. (8) Debit Capital A/cs and credit P. & L. Adjustment A/c with incorrect shares of profit; debit P. & L. Adjustment A/c with Interest on Capital £220, and credit partners' Capital A/cs (£110, £90, and £20); divide balance of P. & L. Adjustment A/c between partners, viz., X £690, Y £345, Z £345. (9) Total of Balance Sheet £17,534 16s. 10d. (10) Shares of profit: Aplin $\frac{5}{12}$, Charles $\frac{5}{12}$, Paton $\frac{1}{6}$ or $\frac{1}{6}$. (11) Cash Book *Dr.* £1,500. (12) Cash Book *Dr.* £1,800, *Cr.* £240. (13) Cash Book *Dr.* £1,800. (14) Cash Book *Dr.* £2,300, *Cr.* £300. (15) Total of Balance Sheet £14,479; Capital A/cs: Dean £5,376, Gibson £5,376, Fir £2,150. (16) Goodwill on Purchase Price = £4,460; after adjustments = £4,868 (4460 + 200 + 200 + 8); total of Balance Sheet £31,218. (17) Balance due to P. Crew's representatives £7,955 16s. (18) Sixth year, last instalment £80 2s. 8d. (19) Final payment £701 1s. (20) Net Loss £1,295; Capital A/cs: Rostron £2,281 10s., Teale £178 10s. (21) Net Profit £1,314; Capital A/cs: Cowan £6,879 10s., Bennett £6,740 10s. (22) (*a*) Net Profit £1,758 15s.; Capital A/cs: Austin £7,316 5s., Bell £4,877 10s., Cooper £4,877 10s.; (*b*) Peters must bring in £2,438 15s. for one-eighth share. (23) Net Profit £1,080 11s. 3d.; Capital A/cs: Fisher £3,851 8s. 9d. Green £3,851 8s. 9d., Gray *Dr.* £251 17s. 6d. (24) Tree will receive £2,947 12s. 5d., Grayson, £1,685 14s. 3d., Birch, £926 13s. 4d. (25) Capital A/cs: Mason, £27,430, Box £5,962 10s. (26) A will receive £1,260, B £708 15s., C £551 5s. (27) Journal entry: Credit each partner's Capital A/c with his proper interest, and debit the partner's Capital A/cs with the total (£1,200) in the same proportion as they share profits. (28) X $\frac{1}{2}$, Y $\frac{5}{12}$, Z $\frac{3}{12}$. (29) (*a*) £2,572 10s.; (*b*) £4,590. (30) Goodwill A/c: 1st payment £349 15s., 2nd £407 17s. 3d., 3rd £441 7s. 7d., 4th £562 16s. 6d., 5th £238 3s. 8d. (31) Cox will receive £800, Mason £600, Holding £360. (32) By the Partnership Act, partners are not entitled to Interest on Capital before ascertainment of profits, but are entitled to 5 % Interest on Advances; they are also equal partners if there is no agreement to the contrary; Carus's Interest on Loan (10 months) = £41 13s. 4d.; Net Profit £2,718 6s. 8d., half to each partner. (33) Net Profit £662; Capital A/cs: Hart £3,545 13s. 4d., Capper £2,816 13s. 4d., Bonar £2,047 13s. 4d. (34) Net Credit to Flynn £599; Debit Bartle $\frac{3}{5}$ths = £359 8s.; Debit West $\frac{2}{5}$ths = £239 12s. (35) Brown's Capital £2,000, eldest son's Capital £4,000, four children each £1,000 Capital. (36) See text-book. (37) Total of Balance Sheet £9,000, Capitals: A £3,000, B £2,000, C £1,000.

EXERCISE XI

(1) Profit on Realisation £373; Black £3,236 10s.; White £1,146 10s. (2) Loss on Realisation £750; Black receives £2,525, White £825. (3) White receives £5,625; Black's Capital A/c *Cr.* £3,275, Goodwill A/c *Dr.* £1,800. (4) (*a*) Robinson £3,120, Larkin £2,760, Sparrow £2,150; (*b*) Robinson £3,195, Larkin £2,820, Sparrow £2,195; (*c*) Robinson £2,079 6s. 8d., Larkin £1,719 6s. 8d., Sparrow £1,109 6s. 8d. (5) Loss on Realisation £3,020; Hawker £1,284, Haigh £196 balance of Loan A/c. (6) Loss on Realisation £635; Rogers £8,119, Hawley £5,246. (7) Creditors £6,230, Loan £650, Linton £3,860, Price £3,088, Westerby £2,316. (8) Wood £4,768, Harrison £3,326, Batty £2,384. (9) Capital A/cs: Partridge *Cr.* £2,380, Paterson *Dr.* £360. (10) Creditors £4,520, Loan £1,500, Finchley £5,710, Williams £1,930. (11) *Garner v. Murray* ruling must be applied. Solvent partners will bear balance of Z's deficiency in proportion to their last agreed Capitals, viz., X $\frac{4}{7}$ of £330, and Y $\frac{3}{7}$ of £330. Profit on Realisation £520. X receives £6,080, Y £5,006. (12) Loss on Realisation £1,140; X and Y bear Z's deficiency £450, $\frac{3}{5}$ths and $\frac{2}{5}$ths respectively; X receives £5,760 and Y £3,840. (13) Profit on Realisation £1,130; Loss occasioned by the insolvent partner's default, £311 13s 4d., is borne $\frac{5}{9}$ths by A and $\frac{4}{9}$ths by B; A receives £5,391 17s. 1d., B receives £4,238 2s. 11d. (14) Hawker receives £1,400, and thus bears the whole

of the loss caused by Temple's default; which shows the injustice of the *Garner v. Murray* ruling in extreme cases. (15) (*a*) They must pay their deficits, and Hawkins will receive £1,500; (*b*) Hawkins will receive £1,000, and whatever sums he can obtain from Templar and Joyce; (*c*) Hawkins will receive £1,000, and bear the whole of the loss caused by the insolvent partners' default. (16) Loss on Realisation £900; loss caused by Robinson's default, £433 6s. 8d. (£500 + £150 *less* Cash £216 13s. 4d.), is borne $\frac{2}{3}$ths by Brown and $\frac{1}{3}$ths by Jones; Brown receives £2,500 and £279 3s. 4d., and Jones receives £1,500 and £37 10s. (17) Creditors receive a dividend of 15s. 4d. in the £ on £12,000. (18) Profit on Realisation £576; Wyatt receives £6,288, Dawson receives £4,288.

EXERCISE XII

(1) Balance Sheet total £280,000. (2) B/S £309,000. (3) B/S £80,000. (4) B/S £200,000. (5) B/S £225,000. (6) B/S £80,000. (7) B/S £88,000. (8) B/S £80,000. (9) Cash received on allotment £48,125; Cash balance £75,000. (10) B/S £100,037 10s. (11) Application A/c £50,000 including £25,000 Premium; Allotment A/c £75,000. (12) O.S. Capital £20,000 *less* Calls in Arrear £3,800 = £16,200; P.S Capital £22,000 *less* Calls in Arrear £3,500 = £18,500; Cash balance £34,700. (13) B/S £399,900. (14) Called up Capital £50,000 *less* Calls in Arrear £336 (1st Call £102, 2nd Call £122, 3rd Call £112) = £49,664; Cash balance £49,664. (15) Gross Profit £6,225; Net Profit £2,956; Approp. A/c £1,956; B/S £28,518; Unpaid or Unclaimed Dividends are a liability and appear on Balance Sheet only—not in Profit and Loss A/c or Approp. A/c.

	Gross Profit.	*Net Profit.*	*Approp. A/c balance.*	*Bal. Sheet total.*
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(16)	34,571 – – (L)	43,770 11 – (L)	—	197,952 – –
(17)	36,150 – –	18,261 10 –	14,685 7 –	136,261 10 –
(18)	3,344 3 3	1,928 11 10	2,115 19 –	12,060 4 1
(19)	7,978 – –	872 – –	—	85,631 – –
	(Cost of Issue of Debentures shown on Assets side of Balance Sheet.)			
(20)	11,582 – –	2,843 – –	4,891 – –	52,414 – –
(21)	11,366 – –	5,507 – –	4,007 – –	61,240 – –
(22)	5,850 9 –	1,210 10 –	715 – –	43,321 10 –
(23)	Trial Balance, £117,214 19s. 9d.	3,605 5 3	425 15 9	113,648 2 6
(24)	16,515 – 8	3,048 18 5	1,600 9 8	79,319 10 5
	(Three months' Pref. Div. due = $\frac{1}{4}$ of £1,500 = £375; Patents have 12 more years to run, write off $\frac{1}{12}$th.)			
(25)	13,324 – –	6,060 – –	7,168 – –	73,507 – –
(26)	2,939 4 2	829 7 6	545 17 7	17,666 2 1
	(Treat Bad Debts A/c *Cr.* as balance of Old Reserve.)			
(27)	10,759 2 7	4,111 4 –	—	31,613 19 –
(28)	6,450 – –	600 – –	—	42,900 – –

EXERCISE XIII

(1) Balance Sheet total £428,480. (2) Share Capital A/c £200,000. (3) Gross Loss £2,590; Net Loss £5,890; Balance Sheet total £186,370. As it is a manufacturing company, put Salaries and Wages in Trading A/c. (4) Journal entries: Debit Assets, credit Liabilities, Balance due to W. Brown £1,300; Sundry Shareholders to Share Capital £1,700; W. Brown to Share Capital £800. Cash Book entries: *Debit* To Balance £50 and £500, To Sundry Shareholders £1,700; *Credit* By W. Brown £500. (5) Trial Balance total £205,000; Calls in Arrear £17,500; Cash balance £62,500. (6) Balance Sheet £161,687 10s. Forfeited Shares A/c £62 10s. (7) Balance Sheet £324,000; Cash balance £274,000. (8) Profit on Realisation £10,125; Goodwill in Company's books £10,125 (£60,000 less £49,875). (9) Cash balance £34,800; Balance Sheet £74,800. (10) Total of Journal £2,000,050. (11) Balance Sheet total £97,000; Calls in Arrear £1,250; Forfeited Shares A/c £2,000. (12) £75 of Capital issued for £70, balance of £5 must be made good from Forfeited Shares A/c; Other method: Premium on Re-issue of Shares £7 10s. (13) Balance carried forward £2,100; Income Tax A/c *Cr.* £455. (14) £500 overpaid on Application A/c to transfer to Allotment A/c; Cash balance £77,365; Forfeited Shares A/c £45. (15) £1,000 of Capital issued for £500, balance of £500 must be made good from Forfeited Shares A/c; Other method: Premium on Re-issue of Shares £250. (16) £750 will be debited to a "Cost of Issue of Debentures" Account, and will appear as a separate item on the assets' side of the Balance Sheet. (17) Balance carried forward £1,900; Income Tax A/c

Cr. £250. (18) A note should be made on the Balance Sheet to the effect that the Preference Dividend is 4 years in arrear; no entry is required in the books. (19) Total of Journal £141,500.

	Gross Profit.	*Net Profit.*	*Approp. A/c balance.*	*Bal. Sheet total.*
	£ s. d.	£ s. d.	£ s. d.	£ s. d.
(20)	4,341 – –	1,653 8 –	1,003 8 –	11,568 8 –
(21)	13,683 – –	3,225 – –	3,813 – –	56,101 – –
(22)	8,944 – –	2,339 12 6	—	67,124 12 6
(23)	6,110 – –	1,322 – –	202 – –	50,689 – –
	(Dividend of 2½ per cent. £1,120, £202 to carry forward.)			
(24)	8,509 – –	4,053 17 –	4,259 17 –	54,010 17 –
(25)	11,191 19 5	2,658 12 1	4,183 – 7	114,471 – 5
	(Treat Bad Debts A/c *Cr.* as balance of Old Reserve.)			
(26)	17,460 – –	5,287 – –	4,330 – –	205,380 – –
	(Total of Trial Balance £228,425.)			
(27)	8,887 10 –	2,081 – –	5,381 – –	74,808 10 –
(28)	6,063 – –	4,236 – – (L)	—	50,209 – –

EXERCISE XIV

These exercises are on Statistical Books, which should follow the models shown in the text.

EXERCISE XV

(1) Prime Cost of Goods manufactured £44,418 12s. 4d., Cost of Production £53,093 6s. 2d., Profit on Production £5,378 15s. 6d.; Gross Profit on Trading A/c £12,070 16s. 8d. (2) Cost of Pig Iron produced £63,530 17s. 11d.; Gross Profit £68,035 8s. 8d. (3) Spinning A/c *Dr.* £100,950 18s. 4d.; Weaving A/c *Dr.* £40,702 12s. 11d.; Gross Profit £65,114 4s. 4d. (4) Gross Profit £2,178 1s. 3d. (5) Turnover £23,895 10s. 9d. 100%; Prime Cost of Goods sold £11,237 14s. 10d., 47·03%; Carriage In, 7·78%; Wages, 15·00%; Gross Profit £7,214 9s. 7d., 30·19%; Salaries, 2·04%; Commission, 1·37%; Advertising, 1·37%; Discounts, 1·60%; Rent, Rates, and Taxes, 1·57%; Carriage Outwards, 1·48%; Trade Expenses, 1·57%; Bad Debts, 1·37%; Depreciation, 1·61%; Interest on Capital, 1·08%; Net Profit £3,615 10s. 11d., 15·13%. (6) Working Profit £111,573 2s. 9d. (7) Working Profit £16,608 15s. 8d. (8) Working Profit £14,341 15s. 11d. (9) Working Profit £301 5s. 10d. (10) Working Profit £5,189 15s. 4d. (11) Working Profit £469,001 5s. 3d. (12) Working Profit £9,761 4s. 6d. (13) Total of Trial Balance £42,780; Manufacturing A/c, profit £7,610; Net Profit £5,260; Total of Balance Sheet, £30,220. (14) Output: 1st year, £29,000 = 100%; 2nd year £20,000 = 100%. Prime Cost of Materials Used: 1st year £18,500; 2nd year £12,000. Average of two years: Output £49,000; Materials Used £30,500.

Items.	*1st year.*	*2nd year.*	*Average of 2 years.*
	%	%	%
Materials used	63·80	60	62·24
Wages	25·86	24	25·11
Expenses	6·89	6	6·53
Profit	3·45	10	6·12

(15) Cost of Pig Iron £35,311 = 37s. 11½d. per ton; Gross Profit £21,530; Net Profit £11,432. (16)—

	Year 1.	*Year 2.*		*Year 1.*	*Year 2.*
	%	%		%	%
Materials used	61·39	59·09	Gas and Water	0·60	0·66
Wages	20·55	20·89	Travellers	2·00	2·10
Rent and Power	4·55	4·56	Repairs	1·16	1·55
Carriage	1·40	1·36	Insurance	0·21	0·21
Travelling Expenses	0·83	0·85	Depreciation	1·64	1·60
				94·33	92·87

(17) Working Profit £11,470. (18) Working Profit £13,399 19s. (19) Cost of Pig Iron £39,409; Gross Profit £13,032; Net Profit £8,426; Balance Sheet total £70,302. (20) Total of Trial Balance £85,012 10s.; Manufacturing Profit £6,692 10s.; Net

Profit £1,886 10s.; Approp. A/c £1,599 10s.; Balance Sheet total £44,529 10s. (21)—

	Current Year.		*Following Year.*	
	%		%	
Cost of Material	50	£5,000	48	£5,760
Wages	30	3,000	29	3,480
Discount	5	500	3	360
Expenses	15	1,500	15	1,800
Profit	—	—	5	600
Sales	100	£10,000	100	£12,000

(22) On Turnover: Purchases 45%, Wages 20%, Rent 2%, Rates, Taxes, etc., 1%, Salaries 7·50%, Depreciation 2·50%; Net Profit 22%. (23) Prime Cost of Goods 76·67% and 77·00%; etc.; Gross Profit 2·50% and 7·08%; Net Loss 32·83% and 15·75%. (24) Manufacturing Cost £3,800; Sales £6,000; Manufacturing Profit £2,200; Net Profit £740 or 19·47% on Manufacturing Cost; Or if Discount on purchases is credited to Manufacturing A/c, Manufacturing Cost will be £3,770, Net Profit £740 = 20% on Manufacturing Cost.

EXERCISE XVI

(1) Write off £110 each year. (2) Rate 25% p.a. (approx.). (4) Amount to write off yearly = £345 12s. 9d. (5) Depreciation Fund annual instalment = £245 12s. 9d. (7) If the decrease is merely temporary, make a note on the Balance Sheet as to their present market value. If it is likely to be permanent, write off, or make a Reserve to cover it. No credit should be taken in the Profit and Loss A/c for appreciation. (8) The two Stocks should be entered in the Trading A/c in a similar manner to Stock of Goods. (12) Write off $\frac{1}{20}$th of Lease each year; write off $\frac{1}{16}$th of Patents each year. (15) Write off (1) £90 a year from original cost of each machine, or (2) 20·5% (approx.) annually from diminishing value of each machine. (17) Balance of old Machinery A/c to write off to Profit and Loss = £2,600; New Machinery A/c *Dr.* £8,850. (19) Balance of Machinery A/c: 1st method £873 15s.; 2nd method £795 5s. 2d. (20) Cost of Consols = £1,275. (25) 8% off original cost; 9·71% off diminishing annual balance. (26) No; because of the very unequal charge against profits in respect of the same asset, viz., £90 p.a. in the earlier years and £220 p.a. in the later years. As £90 p.a. with interest is sufficient to raise the capital sum, Profit and Loss should not be debited with any more; the payments to the Insurance Co. should be posted to the debit of a Policy A/c to be treated as explained in the text-book. The £2,400 should be utilised to provide £80 a year for 30 years towards the £220.

EXERCISE XVII

(2) Net Profit £735 5s. 1d. (3) Gross Profit £1,704 15s. 2d.; Net Profit £1,066 7s. 8d. (4) Gross Profit £2,037 10s. 10d.; Net Profit £1,220 7s. 5d. (5) Branch A: Gross Profit £2,402 6s. 6d.; Net Profit £1,797 8s. 4d.; Branch B: Gross Profit £2,518 5s. 11d., Net Profit £1,727 4s. 7d. (6) Value of Stock £2,687 15s. (7) Liverpool Branch: Gross Profit £11,550 13s. 10d.; Net Profit £3,423 1s. 3d.; Reading Branch: Gross Profit £9,456 10s. 8d.; Net Profit £2,302 4s. 1d.; Total of Net Profit £3,381 13s. 10d.; Total of Balance Sheet £51,413 0s. 9d. (8) Total of Balance Sheet £15,474 14s. 11d. (9) Gross Profit £1,496 16s. 10d.; Net Profit £766 18s. 10d., Total of Balance Sheet £2,078 7s. 10d. (10) Gross Profits: London £13,576 3s. 4d., Edinburgh £8,586 19s. 3d., Dublin £8,084 10s. 1d.; Net Profits: London £9,132 2s. 11d.; Edinburgh £5,132 10s. 2d., Dublin £5,481 12s. 10d.; Total Net Profit £19,746 5s. 11d.: Finch £9,198 8s. 8d., Green £5,915 9s. 11d., Roberts £4,632 7s. 4d.; Total of Balance Sheet £76,143 3s. 4d. (11) Gross Profit £1,804, Net Profit £1,033, Debtors at close £1,210. (12) Total Net Profit £22,200: A £5,600, B £5,600, C £6,100, D £4,900; Total of Balance Sheet £80,200. (13) Net Profit £366. (16) Net Profits: K £290, P £324, Q £436. (17) Gross Profits: Head Office £32,974 13s. 11d., Branch A £16,143 6s. 5d., Branch B £6,583 14s. 7d.; Net Profits: Head Office £26,739 16s. 9d.; Branch A £11,609 2s. 9d.; Branch B £3,261 4s. 1d., Approp. A/c £28,784 5s. 8d.; Total of Balance Sheet £131,120 17s. 5d. (18) Factory A/c: Manufacturing Loss £837 11s. 8d., Net Loss £3,354 18s. 5d.; Gross Profits: Branch A £26,819 19s. 7d., Branch B £10,052 2s. 2d.; Net Profits: Branch A £18,937 5s. 4d., Branch B £3,604 3s.; Total of Balance Sheet £148,703 17s. 8d. (19) Gross Profits: Northern Branch £3,943 15s. 10d.; Southern Branch £2,646 12s. 6d. Net Profits: Northern Branch £1,775 13s.;

Southern Branch £1,299 1s. 2d. The 2½% Allowance has been taken off the Purchases and Sales respectively. Total Net Profit £1,328 3s. 1d.; Total of Balance Sheet £26,896 15s. 9d. (20) Balance of Factory Current A/c *Dr.* £13,000. (22) Net Profit £1,000. (23) Gross Profit £36,000, Net Profit £30,300; Total of Balance Sheet £87,150. (24) Head Office A/c *Dr.* £54,440; Total of Branch Balance Sheet £58,130. (25) 1431 marks 78 pfennige; 1742 marks 92 pfennige. (26) Profit on exchange 2s. 5d. (27) Loss on exchange 7s. 11d. (29) Profit on exchange £1 11s. 8d. (30) Profit on exchange £26 0s. 10d. (36) Loss on Exchange £24 14s. 7d.; Net Profit £3,510 13s. 6d.; Total of Balance Sheet £11,399 3s. 8d. (37) Profit on Exchange £405 7s. 6d.; Branch Profit £3,247 17s. 6d.; Total of Balance Sheet £25,848 15s.10d. (38) Loss on Exchange £23 15s. 6d.; Net Profit £767 3s. 7d.; Total of Balance Sheet £11,957 16s. 9d. (39) Loss on Exchange £139 19s. 2d.; Gross Profit £2,388 7s. 2d.; Net Profit £1,224 6s.; Total of Balance Sheet £16,226 7s. 6d. (40) London Office A/c *Cr.* $108,700; Profit on Exchange £181 5s.; Total of Balance Sheet $116,700.

EXERCISE XVIII

(1) Deficiency £3,245. (2) Deficiency £62 6s. 10d. (3) Deficiency £15,509. 7s. 6d. in £. (4) Deficiency £1,950. (5) Deficiency £1,400. (6) Deficiency £2,675; (7) Deficiency £9,820. (8) Surplus £162 6s. 8d. (9) Deficiency £5,020. (10) Deficiency £3,769. (11) Deficiency £74,178. (12) Deficiency £3,118. (13) Deficiency £2,370. (14) Deficiency £19,600. (15) Deficiency £750. (16) Deficiency £338 15s. (17) Deficiency £1,837. (18) Deficiency £5,084 7s. 2d. (19) Deficiency £650. (20) Deficiency £21,047 10s. (21) Deficiency £21,760 13s. 4d. (22) Deficiency £2,046 13s. 4d. (23) Deficiency £18,700. (24) Deficiency of firm £4,723; Surplus of Alfred £725, of Benjamin £881; Charles' Statement balances. (25) Deficiency £23,291 12s. 3d. (26) Balance due to A £69 5s. (27) Balance £11 14s. 10d. (28) First and Final Dividend of 6s. 4·05d.

EXERCISE XIX

(2) Assurance Fund at end of year £1,640,452; Balance Sheet total £1,651,632. (4) Fund £2,177,835. (6) Fund £1,770,395; Balance Sheet £1,854,750. (8) Fund £3,168,026. (9) Fund £820,000; Balance Sheet £862,000. (10) Fund £3,790,500; Balance Sheet £3,956,200. (11) Fund £4,235,000; Balance Sheet £4,260,000.

EXERCISE XX

(1) Coke 68·12; Tar 4·71; Sulphate of Ammonia 1·30.

EXERCISE XXI

(1) £823. (3) Firm's assessment, £2,518, subject to allowances to partners. (5) Earned Income Relief: A, £40; B, £35; C, £30; Marriage: B, £225; C, £225; Personal, A, £135; Children: B, £90; C, £36; Assurance, A £19 @ 3s.; C, £30 @ 3s.; Super Tax, £6,063. (5*a*) Net Tax payable, £24 0s. 7d. (11) Average, £2,886. (12) Tax payable on £474 *less* allowances. (13) Average £2,713 *less* claim for Wear and Tear. (14) £1,312 16s. 11d. *less* claim for Wear and Tear. (16) £5,550 *less* allowances.

EXERCISE XXII

(3) Profit £1,760. (5) Profit £618. (6) Gross Profit, £5,200; Net Profit £3,208; Balance Sheet £12,603. (13) Balance of Redeemable Dead Rent A/c £666 13s. 4d. (14) Dead Rent unredeemed £300. (15) Balance of Overpaid Royalties A/c £150. (19) Income £259 14s. 8d.; Profit on Sale £144 18s. 2d. (20) Income £39 18s. 2d.; Profit on Sale £21 15s. 10d. (21) Income £141 0s. 6d.; Profit on Sale £16 15s. 9d. (22) A B's profit £103 15s. (24) Income £546 3s. 4d.; Profit on Sale £195 14s. (25) Snowflake's profit £284 15s.

EXERCISE XXIII

(10) Double A/c System: Balance of Capital A/c £20,000, Balance Sheet £95,000; Single A/c System: Total of Balance Sheet £255,000. (11) Balance of Revenue A/c, £2,465; Net Revenue A/c, £1,565. (12) Balance of Capital A/c £17,000; total of Balance Sheet £47,000. (13) Capital A/c *Dr.* balance £300; Revenue A/c *Cr.* balance £8,674; Net Revenue £4,232; total of Balance Sheet £5,593. (16) Capital A/c *Dr.* balance £366,501; Revenue A/c *Cr.* £218,373; Net Revenue £226,559; Balance Sheet total £563,955.

EXERCISE XXIV

(2) Total of Balance Sheet £66,899.

EXERCISE XXV

(1) Profit on Realisation, Wynne Co. £3,676 ; Garde Co. £868 ; New Co., Balance Sheet totals £405,586. (2) New Co., B. S. totals £98,000. (3) A Co., Realisation Profit £27,540 ; B Co., Goodwill £63,140 ; B. S. totals £115,250. (4) Old Co., Profit on Realisation £33,377 ; Each shareholder receives Investments £3,284, Cash £1,481 8s., Shares £10,000, New Co., Goodwill £29,400 ; B. S. totals £55,674. (5) B. S. totals £205,000. (6) $1\frac{5}{8}$ shares of £1 each for each old £1 share. B. S. totals £392,750.

EXERCISE XXVI

(2) B/s £22,140,200. (5) Interest *Cr.* £10 11s. 4d. ; Balance of A/c *Cr.* £1,262 14s. 8d. (8) Interest *Dr.* £11 12s. 10d. ; Balance of A/c *Dr.* £594 9s. 4d. (9) Interest *Dr.* 8s. 3d. and *Cr.* £6 13s., Balance of A/c *Cr.* £106 4s. 9d. (10) Interest *Dr.* £119 17s. 4d. and *Cr.* £51 7s. ; Balance of A/c £381 9s. 8d. (11) 2%. (14) Trial Balance £11,041,250 ; Balance of Profit and Loss £137,550 ; Balance Sheet £10,919,000.

EXERCISE XXVII

(1) $2\frac{1}{2}$% Consols, Income £67 3s. 9d. ; Capital Profit £538 ; Balance held £5,274 nominal, cost £2,956 ; War Loan, loss £57. (2) Personalty : Widow receives £353 13s. 10d. net (proportion of £500) and half balance £7,312 10s. net ; Brother £7,017 1s. 1d. net ; Total legacy duties £446 15s. 10d. Realty : Widow receives £141 6s. 2d. net (balance of £500) ; Succession Duty £1 8s. 7d. ; Balance £5,902 5s. 3d. to brother subject to widow's life interest of one-third. (3) Personalty : widow receives £7,722 net ; Miriam, Elizabeth and Albert share equally £7,410 net ; Ethel £7,410 net ; Harold £7,410 net. Total legacy duties £1,248. Realty : Balance to Albert £10,260. (4) Net Personalty £26,715 8s. 2d. ; Realty £3,300 ; Estate duty on Personalty £2,149 16s. 11d. ; Realty £265 11s. 3d. Note the marginal relief and apportionment of duty paid. (5) Residue £880 ; Brother £440 ; Cousins £220 each. Balances payable, Brother £190 ; Cousins £95 each subject to legacy duties. (6) Capital $\frac{2000}{2150}$ of £1,800 = £1,674 8s. 5d. ; Income $\frac{150}{2150}$ of £1,800 = £125 11s. 7d ; Loss (capital) £325 11s. 7d. (7) S. B. Jones and A. Webster, each receives £36,097 12s. subject to legacy duty. (8) Net Personalty £16,704 10s. ; net Realty £1,255. Total duty and interest payable £906 6s. 6d. (9) Residue : Capital £11,275 5s. ; Income £359 13s. 4d. ; divisible equally to B. Smith and C. Brown. N.B.—Household Furniture and Effects assumed to realise £250. (10) Cash balance £27 15s. 4d. (capital) ; Beneficiaries : sons A, B, and C each receive £104 ; Daughter £99 0s. 8d. ; Balance Sheet totals £8,703 12s.

ANSWERS TO REVISION EXERCISES.

EXERCISE I

(3) Total of Trial Balance £1,542 18s. 6d. (4) Total of Trial Balance £25,062.

EXERCISE II

(2) Total of Trial Balance £369 13s. 4d. (4) Total of invoice £512 10s. ; Ricksmith, Pigg & Co. *Dr.* £512 10s. ; Screening A/c *Dr.* £25 ; Coal A/c *Cr.* £375, Wagon Hire A/c *Cr.* £37 10s., Carriage A/c *Cr.* £125. (5) Gross Profit £8,266 14s. 5d., Net Profit £3,878 7s. 2d., Balance of Appropriation A/c £3,807 13s. 8d., Smith's bonus £70 13s. 6d., Balance Sheet total £28,126 15s. 8d., Capital A/c : Sykes £9,828 16s. 10d., Simpson £7,920 1s. 10d.

EXERCISE III

(3) Petty Cash items £20, £3 5s., £1 17s. 6d., £2 14s. 9d., and £1 17s. 8d. (5) Total of invoice £57 ; Ibbetson & Co. *Dr.* £57 ; Coal A/c *Cr.* £52 10s., Wagon Hire A/c *Cr.* £4 10s. ; (*a*) Commission £1 2s. 9d., Interest 14s. 3d., New Bill £58 17s. ; (*b*) Commission 15s. 6d., Interest 6s. 6d., New Bill £39 19s. (6) Gross Profit Factory £3,725, Shop £3,000 ; Net Profit £3,966, Balance Sheet total £15,073 ; Capital A/c : Walters £7,942, Smith £4,391.

EXERCISE IV

(2) Total of Trial Balance £839 3s. 11d.; Discount on J. Moulton's Account = £1 2s. 6d.; all these "catchy" points on Discount are explained and illustrated in *Pitman's Dictionary of Book-keeping*. (4) Ashton's Capital £23,760 7s. 8d.; total of Journal entry £47,286 9s. 2d. (6) Net Result = £293 2s. 4d. more profit. (7) Gross Profit £3,824 5s. 10d., Net Profit £913 15s. 5d., Total of Balance Sheet £10,685 8s. 5d.; Capital A/cs: Pearson £6,259 3s. 7d., Macgregor £3,154 11s. 10d.

EXERCISE V

(5) (*a*) Discount £1 14s.; Commission £1 14s.; (*b*) New Bill £173 7s. 4d.; Discount £1 17s. 1d.; Commission £1 17s. 1d. (6) Gross Profit £737 10s.; Shrinkage in weight 227 tons. (7) Average due date = 9th May; Interest £137 10s.; Bill £11,137 10s.; Stamp 112s. (8) 2s. a load. (10) Gross Profit £3,235 3s.; Net Profit £1,277 12s.; Balance Sheet total £10,040 5s. 3d.; Drawing A/cs: MacAdam £258 4s.; Westrum £419 8s.

EXERCISE VI

(3) Amount of Invoice £344 10s.; Discount £2 3s. 1d.; Commission £1 14s. 5d.; Cash £172 5s.; Bill Receivable £176 2s. 6d. (5) Gross Profit £65,180; Net Profit £49,480. (6) Discount £1 2s. 2d. (7) Total of Balance Sheet £10,386. (8) Interest balance *Dr.* 5s. 6d.; Balance of Account *Cr.* £87 14s. 6d. (9) £1,790 on 14th June. (10) Gross Profit £8,799; Net Profit £1,748 10s.; Balance Sheet total £48,261 18s.; Capital A/cs: Walters £20,791 13s., Dove £17,777 5s.

EXERCISE VII

(2) Amount of Invoice £18 15s.; Cash £17 12s. 6d.; Discount £1 2s. 6d. (5) Profit on Exports £1,190, on Wool £3,850; Loss on Consignments £1,050. Interest on Loans to be debited to the Wool and Consignment A/cs; Net Profit £1,190; Total of Balance Sheet £11,396 14s. 10d.; Capital A/c £1,896 14s. 10d. (6) Discount £2 16s. 3d. (7) Net Profit after adjustments £2,905 2s. 4d. (8) Publishers' profit: 1st year £190, 2nd year £90; Author's profit: 1st year, £100, 2nd year £45. (9) Gross Profit £2,004 0s. 10d.; Net Profit £466 9s. 4d.; Total of Balance Sheet £12,551 4s. 3d.; Capital A/c £10,046 9s. 4d.

EXERCISE VIII

(4) Amount of Invoice £61 13s. 4d.; Commission 12s. 4d.; Discount 15s. 5d.; Bill £63 1s. 1d. (5) Balance of Adjustment A/c £6,870. (7) £2,685 on 14th June. (8) Discount £1 8s. 2d. (to be borne half each). (9) Balance of Interest £19 16s. 8d.; Lanng's Remittance in settlement £726 7s. 10d. (10) Gross Profit £14,181 10s.; Net Profit £3,780 11s. 7d.; Total of Balance Sheet £30,159 7s. 7d.; Capital A/cs; Skinner £12,828 17s. 10d., Fuller £12,932 15s. 4d.

EXERCISE IX

(4) Net Profit £18 5s. 8d. (7) Net Profit £159. (8) (*a*) Gross Profit £4,072 0s. 1d.; Profit before charging Interest on Capital £1,778 18s. 2d.; Net Profit £1,208 19s. 3d.; Merryweather's Bonus £213 6s. 11d.; Total of Balance Sheet £21,746 11s. 6d.; Capital A/cs: Mildred £9,083 6s. 5d., Merryweather £6,025 15s. 2d.; (*b*) Materials Consumed 56·37%; Wages 23·72%; Gross Profit 21·32%; Net Expenses 12·30%; Net Profit 6·33%; Net Turnover = £19,101 3s.

EXERCISE X

(4) (*a*) Amount of Invoice £478; (*b*) *Dr.* balance £28; (*d*) 3s. (7) Balance of Interest *Dr.* £2 6s. 10d.; Balance of Account *Dr.* £456 10s. 2d. (8) Amount of sight draft £730. (9) Profit and Loss *Dr.* £254 10s. (10) Profit and Loss *Dr.* £192 13s. 4d. (11) Gross Profit £6,126; Net Profit £3,629; Total of Balance Sheet £17,741; Capital A/cs: C.G. £7,178 2s. 6d., S.G. £3,592 17s. 6d.; both Reserves treated as new ones, as all the adjustments appear to have been made.

EXERCISE XI

(5) Net Profit £320. (6) £1,790 on 14th June. (7) Opening entries: Jones *Dr.* £3,280; Unpaid balance of Creditors £2,850 should be transferred to Jones A/c, reducing his debit to £430; Profit for half-year = £125 (Debits £1,505—Credits £1,380); Jones Commission = £6 5s.; Amount due to Brown in repayment of his debt of £1,300 = balance of profit = £118 15s. (8) Balance of Adjustment A/cs

£20,100 12s. 11d. (9) Gross Profit £3,521 ; Net Profit £597 2s. 11d. ; Balance Sheet total £13,648 16s. 11d. ; Capital A/cs : Farmer £4,788 15s. 3d., Right £3,887 6s. 8d. ; Percentages of Profit on Turnover : Gross 38·07, Net 6·45.

EXERCISE XII

(2) Amount of Bill £354 11s. 6d. ; Interest £4 7s. 6d. ; Bill Stamp 4s. ; Discount on Bill £1 15s. 6d. (3) Profit on part sold £61 5s. ; Value of Stock on hand £132 10s. (4) Capital A/cs : Lone *Cr.* £3,360 ; Stanley *Cr.* £2,640 ; Maxwell *Cr.* £1,270. (5) Interest due to A 17s. 1d. ; Interest due from B £2 3s. 1d. ; B owes A £38 9s. 3d. (NOTE.—Items on 12th Mar., 17th Mar., 1st Apr., 21st Apr., being unpaid, will not carry interest, but must be entered in the account.) (7) 25% in each case. (9) Excess of Income over Expenditure, £71 ; Total of Balance Sheet £1,237 10s. (10) Loss on Realisation £2,990 ; A's Capital A/c (after absorbing his loan) is £342 10s. in debit, which A has to make good in order to pay B £1,652 10s., the balance due to him as per his Capital A/c. (12) Gross Profit £12,388 14s. 1d. ; Net Profit £1,330 8s. ; Appropriation A/c £582 4s. 7d. ; Balance Sheet £31,172 9s. 5d.

EXERCISE XIII

(4) Discount on Bill, 2 mos., £4 3s. 4d. ; the bill will appear on the December Balance Sheet as a contingent liability. (7) B owes A £1,250, and C owes A £1,250 ; total due to A £2,500. (8) Goodwill £42,000 ; total of Balance Sheet £341,250 ; Cash Balance £36,250. (9) Profit on Realisation £1,200 ; Cash balance £11,200 : A £6,800, B £4,400. (10) Gross Profit £12,000, Net Profit £7,600 (adding tax £25 on to Debenture Interest). (11)—

BALANCE SHEET—LIABILITIES SIDE.

Authorised Debenture Stock £100,000.

Debenture Stock issued	£80,000
Premium on Debenture Stock	1,000
Bank Loan	15,000

(Secured by issue of £20,000 Debenture Stock.)

(14) Four months or ⅓rd of the profit, viz., £1,900, is not available for dividend being earned prior to incorporation ; only £3,800 is available for dividend purposes. (15) Gross Profit £22,223 0s. 4d. ; Net Profit £11,679 17s. 8d. ; Appropriation A/c balance £10,516 14s. 5d. ; Balance Sheet total £632,579 19s.

EXERCISE XIV

(2) Gross Profit £3,400 : A Dept. ⅜ or £1,014 18s. 6d. ; B Dept. ⅜ or £913 8s. 8d. ; C Dept. ⅜ or £964 3s. 7d. ; D Dept. ⅛ or £507 9s. 3d. ; Proportions of Expenses (£258) ; A Dept. ⅜ or £77 0s. 4d. ; B Dept. ⅜ or £69 6s. 3d. ; C Dept. ⅜ or £73 3s. 3d. ; D Dept. ⅛ or £38 10s. 2d. ; Net Profit £1,761 : A Dept. £569 18s. 2d. ; B Dept. £540 2s. 5d. ; C Dept. £477 0s. 4d. ; D Dept. £173 19s. 1d. (4) Banker's Discount £9 ; Interest £5. (5) Venture No. 1 : H 40% of £1,000 ; G and J ⅘ and ⅕ of balance ; Venture No. 2 : H 45% of £500 ; G and J ⅘ and ⅕ of balance ; Current A/cs : G *Cr.* £985 14s. 4d. ; H *Cr.* £775 ; J. *Cr.* £739 5s. 8d. (6) Assuming that the New Company takes over the Creditors, there is a surplus or profit of £11,950, which should be put to a Capital Reserve A/c. This surplus can be used to make good any depreciation of the assets taken over, but is not available for dividend purposes. (9) Total of Trial Balance £112,000. (11) Loss on Realisation £600 ; Net Profit £9,900 ; Cash paid out : L. Brier £10,590 ; C. Oke £2,710. (14) Gross Profit £18,562 ; Net Profit £9,000 2s. 6d. ; Appropriation A/c balance £5,890 2s. 6d. ; Total of Balance Sheet £127,470 2s. 6d. (£280 Interest on Sinking Fund Investments must *not* be credited to Profit and Loss but to the Sinking Fund A/c, and shown as a debt on the assets side of the Balance Sheet.)

EXERCISE XV

(4) Balance due to Vendor £3,274 4s. 9d. (5) Net Profit £345. (6) Profit on Joint Venture £4,000 ; Smith's total profit £3,000 ; Jones total profit £2,120. (7) Interest *Dr.* £12 0s. 3d. ; 6 months' Bill = £212 5s. 3d. (8) Interest on Drawings : D £11 0s. 10d. ; E £9 15s. ; F £8 4s. 7d. ; Net Profit £2,029 0s. 5d. ; Capital A/cs : D £3,626 13s. 1d. ; E £2,374 6s. 5d. ; F £1,399 0s. 6d. (9) Surplus £34. (12) Loss on Realisation £390 ; Cash balance £2,210 ; exercise does not state whether Robinson is solvent or not, or what the Debtors realise ; it cannot therefore be completed. (16) Gross Profit £44,943 ; Net Profit £19,291 ; Approp. A/c £11,775 ; Total of Balance Sheet £73,516.

EXERCISE XVI

(4) Interest on £6,000 5s. at 5% at average date of 4 months = £100 ; each bill = £2,033 8s. 4d. (5) Net proceeds £1,076 17s. 6d. (6) Balance of Sales Ledger Adjustment A/c £2,582. (7) Amount due to P = £1,008 6s. 8d. on Current A/c and £6,554 3s. 4d. on Capital A/c ; total £7,562 10s. (8) A's Capital £4,480 ; B's £3,000. (9) Goodwill £11,000. (11) Gross Profit £10,900 ; Net Profit £7,066 15s. ; Approp. A/c £5,969 17s. 6d. ; total of Balance Sheet £58,519 16s. 10d. (12) Net Profit £3,220 19s. ; Approp. A/c £2,930 14s. 10d. ; total of Balance Sheet £59,492 1s. 11d. (13) Manager's Commission 5% on £1,158 3s. 10d. ; Net Profit £1,084 7s. 2d. ; Total of Balance Sheet £27,516 18s. 3d.

EXERCISE XVII

(3) Interest £1 5s ; New Bill £101 5s. ; due date 21st April. (4) (*a*) By Days, balance of Interest *Dr.* £2 5s. 8d. ; Balance of Account *Dr.* £72 5s. 8d. ; (*b*) By Months, interest *Dr.* £2 5s. 6d. ; Balance of Account *Dr.* £72 5s. 6d. (5) Total of Balance Sheet £8,929 16s. 9d. (7) Total of Balance Sheet £471,200. (8) Balance due to Vendor £809 8s. 8d. (9) Loss on Realisation £1,700 ; C's Deficiency £816 13s. 4d., to be borne (*Garner v. Murray*) $\frac{2}{5}$ths A and $\frac{1}{5}$ths B ; A receives Cash £1,989 11s. 8d. ; B receives Cash £1,193 15s. (10) Book value of Assets = £24,850 (£25,600 − £750) ; Loss on Realisation £3,800 ; Net Loss £3,840 10s.

EXERCISE XVIII

(2) (*b*) Smith's A/c Cash £272, Bad Debts £272. (4) Net Profit: Soap Dept. £5,871 16s. ; Scent Dept. £2,968 19s. 2d. (6) Loss on Realisation £8,000 ; Brown receives £9,000 ; Robinson £8,000. (8) Total of Balance Sheet £84,900. (9) Net Profit £3,239 5s. ; total of Balance Sheet £58,512 5s. (10) Gross Profit £21,435 ; Net Profit £11,155 ; Approp. A/c £10,555 ; total of Balance Sheet £199,286. (11) Gross Profit £13,501 8s. ; net Profit £6,369 15s. 1d. ; Approp. A/c £4,640 10s. 6d. ; total of Balance Sheet £71,210 19s. 4d.

EXERCISE XIX

(5) Gross Profit £3,508 9s. 2d. ; Net Profit £1,082 8s. 6d. ; Approp. A/c £875 7s. 1d. ; Balance Sheet £15,292 16s. 7d. (6) Gross Profit £1,325 ; Net Loss £6,664 ; Balance Sheet £127,601. (7) Gross Profit £12,415 ; Net Profit £1,786 16s. 4d. ; Balance Sheet £97,970.

EXERCISE XX

(2) Account Sales £8,943 ; Net Profit £1,496. (3) A receives £4,200, B £2,100. (5) Gross Profit £8,450, Net Profit £2,630, Approp. A/c £2,030, Balance Sheet £51,030. (6) Gross Profit £5,910 11s. 8d. ; Net Profit £1,000 ; Balance Sheet £38,100 16s. 3d. (7) Tin Vein A/c £8,184 ; Tile Dept.: Net Loss £197, Balance Sheet £34,034.

EXERCISE XXI

(8) Profit on Exchange £14 0s. 7d. ; Gross Profit £3,609 2s. 3d., Net Profit £2,163 3s. 8d., Balance Sheet £6,291 19s. 3d. (9) Deficiency £2,850 ; 10s. 5d. in the £. (10) Gross Profit £6,337 1s. 11d. ; Net Profit £1,434 11s. 3d. (11) Profits: Publishing Dept. £3,280 ; Supply Dept. £5,030 ; Net Profit £2,586 ; Approp. A/c £3,511 7s. ; Balance Sheet £36,806. (13) Gross Loss £13,307 ; Net Loss £39,629 ; Balance Sheet Total £247,174.

EXERCISE XXII

(5) Gross Profit £14,498 ; Net Profit £12,156 ; Approp. A/c £2,435. (7) Net Loss, Alm Road £3,040 ; Net Gain, Beech Road £774. (8) Gross Profit £2,852 ; Net Profit £522 9s. ; Approp. A/c £17 9s. ; Balance Sheet £22,862 9s.

EXERCISE XXIII

(6) Furnaces A/c *Dr.* £58,660 ; Gross Profit £17,986 ; Net Profit £9,876 ; Approp. A/c £9,703 ; Balance Sheet £81,363. (7) Gross Profit £12,700 ; Net Loss £3,000 ; Balance Sheet £78,000.

EXERCISE XXIV

(3) Income for Super Tax £8,300. (4) Total of Balance Sheet £130,060 13s. 7d. (5) Profit on No. 1 £1,500 ; Profit on No. 2 £11,150 ; about $\frac{3}{4}$rds of these amounts should be taken to Profit and Loss, and the other $\frac{1}{4}$rd left as a reserve. Depreciation of Plant reckoned at 10%. (7) Gross Profit £19,246 ; Net Profit £7,112 9s. ; Approp. A/c £4,613 9s. Balance Sheet £76,944 9s.

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PRINTED IN GREAT BRITAIN AT THE PITMAN PRESS, BATH
B6—(1405)

K16